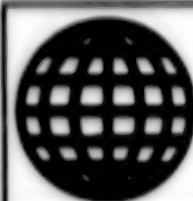


JPRS-CAR-92-011  
6 MARCH 1992



**FOREIGN  
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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-92-011

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6 March 1992

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### **Ethnic Unrest in Xinjiang Examined**

92CM0185A Hong Kong NAN PEI CHI [NORTH AND SOUTH POLES] in Chinese 18 Nov, 18 Dec 91]

[Article in two installments by He Pin (0149 7340): "Why Do Rebellions Occur So Frequently in Xinjiang?"]

[18 Nov 91 pp 26-29]

[Text] Following the collapse of the Soviet coup d'etat, Xinjiang became a hot spot for minority peoples' separatist activities in China.

This article thoroughly analyzes the reasons for disturbances in Xinjiang in terms of autonomy, population, racial differences, religion, hooligan gangs and resistance organizations, and the influence of the USSR. It presents information on several large-scale riots that have occurred during the past 40 years of communist rule, and it forecasts the future course of developments in Xinjiang.

The writer does feel that, for the near term, the separatist movement in Xinjiang will not be as it is depicted in the outside world. Sporadic disturbances will frequently occur in some areas, but a full-blown demand for independence such as occurred in Tibet is unlikely to occur here. The Chinese Communists are very frightened. They fear that the outbreak of an independence movement in Xinjiang might become the fuse for nationwide turmoil; thus, they have taken rigorous action to snuff out every spark.

### **Do the Chinese Communists Pay Close Attention to Xinjiang?**

A REUTER dispatch dated 25 August 1991 quoted a foreign affairs person in Beijing as saying that the Chinese Communists' worst fears about the situation in the USSR is not whether the people will rise up in opposition to Communist Party rule, but whether the numerous minorities in China spread out along the long Sino-Soviet border might follow the example of the minority peoples in the USSR in demanding independence one after another.

On the 28th of the same month, the Japanese newspaper YOMIURI SHIMBUN gave prominent place to a report that following the collapse of the Soviet coup d'etat, the Chinese Communists went on a "class 2 war alert" in Beijing, but a "class 1 war alert" in Xinjiang.

Sometime around August, high-ranking Chinese Communist leaders assembled Xinjiang leaders, including PRC Vice President Wang Zhen (who was in charge of party, government and military affairs in Xinjiang during the 1950's), CPPCC [Chinese People's Political Consultative Conference] Chairman Wang Enmao (Wang Zhen's confidant in Xinjiang who held the positions of first secretary of the Xinjiang CPC Committee and commissar of the Xinjiang Military Region), NPC [National People's Congress] Standing Committee vice chairman Saifuddin [Seypidin Aze] (who served for a long time as chairman of the Xinjiang Autonomous

Regional Government), Political Bureau Standing Committee member Li Ruihuan, and Military Affairs Commission Chief of Staff Zhi Haotian. Wang Zhen's visit to Xinjiang attracted the most notice. Wang Zhen's speeches entitled *Oppose Peaceful Evolution and Safeguard the Unity of the Motherland* received top billing on the Beijing Central Television Station New Combined Program, and they went on for 5 minutes. XINHUA, RENMIN RIBAO, and the Central People's Broadcasting Station immediately presented special reports, and in Xinjiang, party, government, and military cadres also organized special 2-day study sessions on Wang Zhen's speeches.

On 31 August, the United Front Department of the CPC Central Committee, the PLA [People's Liberation Army] General Political Department, the State Nationalities Affairs Commission, the Ministry of Culture, and the national youth association jointly organized a "heart-to-heart" troupe of musicians and artists to go to Xinjiang to give special performances as an expression of appreciation. The director of the United Front Work Department, Ding Guangren, chaired special forums to give this large music and arts troupe a send-off. He said that "the troupe should carry with it the profound feelings of the CPC Central Committee and the capital city to the people in the border region, and bring back with them the spirit of arduous struggle of the border people."

Visits of central government leaders to border regions and visits by arts groups to engage in united front activities are commonplace, but in the context of the "class 1 war alert" following the changes in the USSR, it shows Chinese Communist disquiet about a crisis in Xinjiang.

Historically, Xinjiang was known as the western region. China's contact with the western region began during the reign of the emperor Han Wudi in 140 BC. When Xinjiang Province was established during the Qing Dynasty, formally becoming a part of the Chinese domain, it was China's largest province, accounting for one-sixth of the country's total land area. During the more than 100 years since its founding, Xinjiang has had frequent rebellions. Externally, imperialism cast covetous eyes on and perpetrated aggression against it; internally, ethnic disturbances occurred. Nevertheless, the central government frequently used force to handle the situation. When Zuo Zongtang put down a Muslim uprising in Xinjiang, he said: "Xinjiang is important for the protection of Mongolia, and Mongolia must be protected in order to guard Beijing. The northwest is a part of the national corpus, and the situation there is part of the total situation. No cracks may be left that might be exploited. If Xinjiang is not solid, Mongolia will not be stable, and Gansu, Shaanxi, and Shanxi will have to worry constantly about aggression, meaning that no place in the vicinity of the mountain passes to the north will be able to sleep peacefully." Clearly, Xinjiang remains a barrier in the northwest that is important to



China's national defense. Furthermore, Communist China's nuclear weapons test range is located in Xinjiang.

Given the current international environment, national defense is important, to be sure; however, there is no immediate cause for worry. Time is available to make decisions. Communist China's greatest worry is that, influenced by the independence movement in the Soviet republics, a separatist movement by Xinjiang's minority peoples may become more intense as time goes by, and may even become the fuse for nationwide disturbances. Xinjiang Province is territorially contiguous with Kazakhstan in the USSR, and Xinjiang's Kazaks, Kirghiz, Tajiks, and Mongolians are transnational peoples that have complex contacts with people of the same race outside the region. In addition, most of Xinjiang's 46 different minority peoples have their own spoken language, written script, culture, customs and habits, and religious beliefs. Conflicts between them and the Han race and the central government are longstanding in nature. Therefore, ethnic separatism is a time bomb in Xinjiang that can blow up with the slightest spark at any time. In fact, after 40 years of Chinese Communist rule, Xinjiang remains Mainland China's most unstable region aside from Tibet.

#### **Frequent Disturbances Under Chinese Communist Rule**

Resistance from the local minority peoples has never stopped since the Chinese Communists took over Xinjiang in 1949. In addition to small clashes, at least seven major disturbances have occurred, most of them during the 1960's and the 1980's, those occurring in 1980, 1981, 1985, 1988, and 1990 being particularly fierce.

#### **The Ili Riots of 1962**

In mid-May 1962, the citizens of Ili demonstrated to demand that the local authorities change grain rationing, to oppose large-scale immigration of members of the Han race, and to protest military land reclamation units' competition with local residents for water, land, and pastures. When the protesters surged into the Ili-Kazak Autonomous Zhou CPC Committee compound, the Zhou committee secretary and concurrent military sub-region commander, Zhang Shigong [1728 0013 0501], issued the order to fire, thereby provoking a bloody incident. Subsequently, 60,000 residents of Tacheng, Yumin, and Huocheng counties fled to the USSR, taking their livestock with them. They included scores of Chinese Communist-appointed department heads, Zhou chairmen, county magistrates, and public security bureau chiefs, principal among whom were the first deputy commander of the Chinese Communist South Xinjiang Military Region, Yiminuofu [0122 2404 6179 1133], and Xinjiang Military Region deputy chiefs of staff, Zunongtaiyefu [4371 6593 1132 0048 1133], and Yisihakefu [0122 0761 4430 1133]. Subsequently, they founded the "Turkistan People's Liberation Committee" inside the USSR. The Chinese Communists accused the USSR of being a "behind-the-scenes manipulator" of

the "Ili Rebellion." However, in 1981, Chinese Communist official dispatches no longer referred to the "Ili Riot," but to the "Ili-Tacheng Border People's Flight," and it welcomed those who had fled to "return home to visit relatives." A Guangzhou magazine titled NAN-FENG CHUANG [SOUTH BREEZE WINDOW] published an article on the flight.

#### **The 1980 Kashi Rebellion**

During the Lunar New Year of 1980, a drunken brawl among Uygurs occurred in Kashi in the middle of the night. When the Han police tried to stop it, a drunken Han inadvertently choked a Uygur to death. Then the Uygurs gathered together more than 10,000 people, and invaded every party and government organ and unit. When they found a Han, they beat him, and even Han passers-by were beaten, nearly 1,000 people being injured. Fortunately, no one was killed. At that time, Wang Feng [3076 6912] was in charge of work in Xinjiang. He sent some people to Kashi to deal with matters, but the Uygurs demanded that the assailant be punished, that the unemployment problem be solved, their standard of living raised, and that they enjoy greater autonomy, like the Tibetans. Stating that their personal security was completely lacking, Hans demanded to be transferred back to inland China. A long delay ensued with no clear outcome. During the summer of the same year, the Xinjiang Autonomous Region convened a "tri-level cadres conference" after which a large scale flight of Hans out of Xinjiang began. (For details, see the subsequent section entitled, "Sudden Influx of Han Population Into Xinjiang.") Thereupon, Wang Feng issued orders prohibiting the flight of Hans, and set up road blocks for the examination of documents. Even military vehicles were not let through. Thus, when one military vehicle carrying military ordnance from Xinjiang was blocked, and the soldiers shouted to no avail, they had no choice but to fire warning shots. But the villagers were accustomed to such tactics and believed that the troops were simply threatening but would never injure anyone, so they swarmed all over the vehicles. Feeling that the situation was getting out of hand, the platoon leader in charge of the vehicles issued an order to strafe the people. Six were killed or wounded, and the others fled. Subsequently, the villagers brought a law suit against the autonomous region. Wang Feng directed that the murderer pay with his life. The military would not give in and refused to hand over the person involved. The two parties carried their court case to Beijing, where Wang Feng lost.

#### **The Kashi Riot of 1981**

On 30 October 1981, a Uygur parked a donkey cart loaded with fertilizer in front of a shop belonging to a Han. An argument between the two led to a fight in which the Uygur was beaten to death. The Han fled to the Public Security Bureau where he turned himself in. Carrying the corpse of the dead man, the Uygurs began a large demonstration. That evening tens of thousands of people crowded the main thoroughfares, carrying iron

bars and wooden clubs of all kinds in their hands. Beginning at the main crossroads (in the center of Kashi), they fanned out in all directions in a demonstration. When they came across a shop, a travel agency, or a hospital operated by the Hans, they demolished it. They looted everything of value and, worst of all, they raped the women. They did not even stop at 12 year old girls. Some people had their noses cut off, and one person who jumped into a ditch and pretended to have drowned had his ears burned with a cigarette lighter by a Uygur. Only after he had been burned to the point where he did not move did he escape with his life. Most Hans had to flee into military garrisons.

#### **The Antinuclear Demonstration of 1985**

On 12 November 1985, 300 Uygur students from the Central Nationalities Institute in Beijing staged a demonstration opposing nuclear testing in Xinjiang. On 12 December, 2,000 Uygur students from six institutions of higher education in Urumqi demonstrated for 30 hours. On the 19th, they again demonstrated on the campus of Xinjiang University. Thanks to guidance from many Chinese Communist quarters and dispatch of the police to suppress it, the demonstration did not develop into a riot. In December, Uygur students in Shanghai and Beijing took to the streets to demonstrate once again. Uygur students in Beijing went to Tiananmen Square to shout slogans calling for a halt to compulsory planned parenthood in Xinjiang.

Public opinion in the outside world felt that the Uygur students' protests were reasonable. Ever since the beginning of nuclear bomb testing at Lop Nor in 1964, the number of cancer victims sharply increased in Xinjiang. Fallout from the detonation of 30 nuclear bombs caused the withering of fruit trees around the fringes of the Tarim Basin, and engineering troops who took part in the nuclear detonations developed leukemia. In recent years, the Chinese Communists have built nuclear waste dumps on the Gobi flats to store nuclear waste from Germany.

#### **The Anti-Discrimination Demonstration of 1988**

Two fairly large-scale demonstrations occurred during 1988. One of them occurred in Ili in April in protest against publication in ZHONGGUO ZUOJIA [CHINESE AUTHORS] literary bi-monthly of a novel titled *The Distant Whorehouse*, which distorted the customs of the Kazak people damaging ethnic self-respect. Some Kazak students in six schools of the Ili Normal Academy boycotted classes because of this.

The other occurred on 15 June in Urumqi. Someone had written vulgar words (such as saying that Uygur women have large breasts) on the door of the toilet in the physics building of Xinjiang University, and the students felt that the school authorities were not doing enough to find the culprit. More than 600 Uygur students carrying the toilet door and shouting, "Drive out the Hans," and "We are not ethnic slaves," demonstrated in the streets. The

Chinese Communists felt that this was the most political student demonstration in recent years.

#### **The "Sexual Customs" Incident of 1985**

A book entitled *Sexual Customs* published in Shanghai gave a sexual explanation for the architecture and decoration of mosques, which Muslims felt to be a serious insult against Islam. On 19 May, tens of thousands of people attacked party and government organs in Urumqi, destroying more than 40 small vehicles and injuring more than 150 policemen, public security cadres and policemen, and workers from government organs. In Beijing, 3,000 Xinjiang students took to the streets to demonstrate in support, and student demonstrations also took place in Gansu, Ningxia, and Qinghai provinces. Following the incident, 140 demonstrators were arrested, more than 30 of whom received heavy sentences.

#### **The Baren Kirghiz Riots of 1990**

In mid-March 1990, some Kirghiz assembled at a mosque in Baren township, Akto County, Kashi Prefecture to criticize Communist China's nationalities policy. Speeches that followed became more and more heated and included mostly the following: opposition to planned parenthood policies for minority nationalities, opposition to nuclear weapons testing in Xinjiang, and opposition to the movement of resources from Xinjiang into inland China. Some people even called for the launching of a *Jihad* to drive out the infidels and establish Eastern Turkestan, etc. The protest escalated. Loudspeakers hung from the walls all around the mosque broadcast calls for independence all day long. Reportedly, two Hans that the Chinese Communists sent as delegates to negotiate an end to the difficulties were killed, and the demonstrators surrounded more than 100 policemen sent to quell the demonstration. Intense street fighting ensued until, finally, a special detachment made up of more than 1,000 members of the PLA forcibly dispersed the protestors. Most foreign wire services reported at the time that the Uygurs had rebelled when actually it was the Kirghiz who had rioted. Foreign wire service dispatches also said that more than 60 people were killed in the riot, but the Chinese Communists branded this report a falsehood. On 4 April 1991, however, Tomur Dawamat of the Xinjiang Autonomous Regional Government admitted in Beijing that the rioters had killed six People's Armed Police members and one Uygur cadre at the rally, and that later on the army had shot and killed 15 demonstrators and arrested more than 100 people in putting down the disturbances.

From 17 July to 16 August 1990, Urumqi held an *Exhibition on the Quelling of the Armed Counterrevolutionary Rebellion at Baren Township, Akto County*. It also announced that it had uncovered a "counterrevolutionary organization" of the "Turkestan Islamic Party" led by J. Yusufu [3768 4790 3940], who had been shot to death in the course of quelling the disturbances. All of the large color photographs displayed in the exhibition

were gory. The heads of some of seven dead policemen had been struck with an ax, their brains splattering in all directions. Some of their throats had been slit with a sharp blade, completely severing them, for a tragic sight too hard to look at. Some had been stabbed numerous times, and the hands and feet of some had been cut off in a heart-rending scene.

A riot also broke out in late September 1990 in a small town close to the Soviet border in northern Xinjiang. In this riot, approximately 200 local people demonstrated for independence and opposition to the government. After learning of the demonstration, the local authorities dispatched troops and policemen as a precautionary measure. The two sides were deadlocked for 3 or 4 days before the situation calmed down. Fortunately, no one died. The outside world knew nothing about this, and it was only in April 1991 that Chinese Communist officialdom revealed it.

Naturally there are far-reaching historical reasons and international reasons for the recurrent riots in Xinjiang during the past 40 years, but Chinese Communist policy mistakes are a direct cause, and include mostly the following: weakened autonomy for Xinjiang; excessive immigration of Hans into Xinjiang; failure to respect or damaging of the religious beliefs, the culture and education, and the customs and habits of the minority peoples; etc.

#### No True Autonomy in Xinjiang

In the *Manifesto* of the Second NPC of July 1922, the Chinese Communists stated their nationalities program for the first time as follows: "4) Mongolia, Tibet, and Xinjiang are to be autonomous, becoming a democratic autonomous federation; 5) a free federation system is to be used to unite China Proper, Mongolia, Tibet, and Xinjiang for the founding of a Chinese Federal Republic." In August 1936, the CPC Central Committee reiterated that the Chinese Soviet Red Army and the Communist Party of China "advocate national self-determination for small and weak nationalities, organizing independent national governments." (Beijing MINZU YANJIU [STUDIES ON MINORITIES], Issue No. 1, 1985) However, once the Chinese Communists seized power, they completely repudiated the federal system and national self-determination at the CPPCC meeting they convened in 1949, finally making nationalities area autonomy their basic nationalities program.

Even so, the Chinese Communists did not truly implement the principle of national self-rule. Authority to choose, legislative authority, and administrative authority for ethnic self-rule were ruthlessly weakened. This weakening was manifested most prominently in administrative authority. So-called administrative authority means mostly personnel authority and financial authority.

In the realm of personnel authority, superficially, the positions of chairman of the Xinjiang-Uygur Autonomous Regional Government, chairman of the Xinjiang

Uygur Autonomous Regional People's Congress, and chairman of the Xinjiang CPPCC Committee are to be held by minority nationality cadres. However, everyone is aware that the government, the People's Congress, and the CPPCC harken to orders from the party. The power of "the number one man" in these organs is absolutely not as great as the power of the number one man in the CPC committee system. Furthermore, during the past 40 years, none of the Xinjiang Autonomous Regional CPC Committee secretaries has been a minority nationality cadre. This is not even to mention the situation in the military system.

What is more, the minority nationality cadres are by no means representatives of the people of local nationalities at all levels of the autonomous government, but rather Chinese Communist appointed agents. Chinese Communist documents provide as follows: "When selecting minority nationality cadres for promotion, it is necessary to consider whether they truly maintain political unanimity, and whether they resolutely act in accordance with the party line, plans, and policies." Should these "agents" whom the Chinese Communists have suborned commit the slightest deviation, they may be stigmatized as "local nationalists." A so-called "local nationalist" is no different from a "counterrevolutionary." The Chinese Communists believe that "local nationalism" is manifested in the following ways: 1) Not acknowledging the People's Republic of China to be the common motherland of all nationalities, thereby opposing and damaging the unity of the motherland; 2) opposition to the socialist road, using various pretexts to favor ethnic traits, and using every possible means to protect the remnants of the exploitive system and reactionary power of one's own nationality, thus being divorced from the path of socialism; 3) opposition to the Chinese Communist centralized leadership, seeking to supplant the unity of the party with nationality groups; and 4) damaging the equality of nationalities, practicing big-nationality chauvinism against minority nationalities. During the past more than 40 years, countless minority nationality cadres have been labeled local nationalists, for which they have been severely rectified. One recent example occurred following the quelling of the Kashi revolt in early April 1990 when an overwhelming majority of party and government cadres in the area where the revolt occurred were dismissed. This included 11 People's Congress delegates, and 10 people in charge of party organizations, the Chinese Communist Youth League, the Women's Federation, and the militia; 40 people were expelled from the party (XINJIANG RIBAO, 12 October 1990). The highest position affected was that of Seypidin. Seypidin, who had been the chairman of the autonomous region ever since the Chinese Communists entered Xinjiang, came under criticism as a result of the constant riots that occurred in Xinjiang during the 1960's and the flight incident. In 1970, he was detained in Beijing on suspicion of maintaining illicit relations with foreign countries, and although he is a vice chairman in the NPC, this is an empty position. He has lost real authority to administer Xinjiang directly.



A news report that China's XINHUA issued from Beijing on 9 September 1991 said that the number of Chinese minority nationality cadres had increased from 789,000 to 1.84 million, and that minority national cadres as a percentage of total cadres nationwide had increased from 4.76 to 6.06 percent. This report provided a fairly detailed explanation of the situation in places such as Tibet, Ningxia, and Sichuan where there are a fairly large number of ethnic minorities, but it did not mention Inner Mongolia, and it gave only short shrift to Xinjiang. I do not doubt these figures, but the problem is that an overwhelming majority of these cadres are Communist Party members, and the most important positions continue to be in the hands of cadres of Han nationality. One might say that the issue of ethnic autonomy has not been substantively resolved.

With regard to autonomous region financial authority, the Chinese Communist *Constitution* originally provided that "autonomous organs in national autonomous areas have autonomy over local government finances." Nevertheless, the "centralized collection and centralized expenditure" fiscal policy that the Chinese Communists pursue actually means that Xinjiang, like all other autonomous regions, cannot plan its own construction projects on the basis of its own sources of revenues in order to satisfy the special needs of its own people; thus, the discharge of other autonomous authorities is adversely affected. For example, the central government's uncompensated shipment outside the region of large quantities of minerals, timber, electric power resources, and livestock is an important reason for tensions. However, the Chinese Communists are making an effort to use improvement of economic life to win the support of the minority nationalities. The livelihood of the ethnic minorities has really improved in recent years, with the Chinese Communists providing subsidies of up to 100 million yuan annually. In 1990, the Chinese Communist State Council announced that nine preferential treatments are to be accorded Xinjiang. These include the continued building of a northern Xinjiang railroad that connects with the USSR railway system, expansion of the Urumqi International Airport, and simplification of local export procedures. Nevertheless, the people of Xinjiang are not acquiescing, it seems, because although they believe that Xinjiang should have these rights, it is not right for the central government to confer them.

[18 Dec 91 pp 74-79]

#### [Text] Sudden Influx of Han Population Into Xinjiang

The migration of large numbers of Hans into minority nationality areas is one major means that the Chinese Communist authorities employ to rule the minority nationalities. The percentage of Hans in the total population of Xinjiang rose sharply from 5.5 in 1949 to approximately 40 percent in 1970. Doubtlessly, this has also been a major reason leading to dissatisfaction among the minority peoples of Xinjiang. The origin of

the Ili riots of 1962 was a demonstration by the public of Ili to demand that the local authorities change the grain ration, opposition to large scale Han immigration, and resistance to military land reclamation units competing with local residents for water, land, and pastures.

#### Muslim Nationalities in Xinjiang

Minority Nationality	Population
Hui	7.21 million
Uyghur	5.95 million
Kazak	610,000
Dongxiang	280,000
Kirghiz	120,000
Salar	70,000
Tajik	30,000
Benan	10,000
Tatar	10,000
Total	14 million

The Han population in Xinjiang numbers more than 5.2 million today. Except for the descendants of some Han peoples who immigrated there in ancient times, most entered Xinjiang after the end of the 1940's and are of five main categories:

First is Tao Shiyue's [7118 1492 1471] military units. Tao Shiyue was the last Kuomintang government garrison commander in Xinjiang who handed over the 100,000 men in his command to the Chinese Communist army for redesignation in September 1949. The Xinjiang Garrison Command Headquarters was redesignated the 22d Chinese Communist Army with Tao serving as army commander, and Wang Zhen serving as political commissar. Tao was commissioned a full general by the Chinese Communists and subsequently served as a deputy chairman of the national CPPCC. However, his subordinates were assigned to the reclamation of land for cultivation along the Manas He. Dissatisfied with Tao Shiyue's capitulation to the Communists and forced to reclaim wasteland some division and regimental commanders, as well as soldiers fled. The remaining officers and men have since grown old, but some of their children continue to serve as land reclamation troops under the *replacement system*. In his final years, Tao issued a 150,000-word statement entitled *Tao Shiyue's Autobiography* in which he said that in the course of the political campaigns that had occurred over the years, his former subordinates had been killed, jailed, disciplined, and stigmatized, and their wives and children condemned. He said that he could not help but sob when faced with an avalanche of letters of supplication from fellow officers, or notes left by the departed. He sighed with regret: "I feel greatly troubled. I both hate myself and am unable to help myself, and I also feel that I have been wronged somewhat." Tao died a natural

death leaving behind in Xinjiang the officers and soldiers of the former Nationalist army as well as their dependents who are increasingly dissatisfied with their bad circumstances. Second, following the change of flags in Xinjiang, the Chinese Communists transferred large numbers of Han cadres and intellectuals from inland China to become leading cadres in party, government, and army organs at all levels, and to take up jobs as teachers and researchers in scientific, educational, and cultural units. Most of these people were Hans who had many conflicts with the minority peoples in the course of work, who were not accustomed to the local way of life, and who constantly asked to be transferred back to inland China. Following the 1980 New Year's disturbances in Kashi, the autonomous region convened a tri-level cadres conference in the summer of the same year at which it was decided to replace all commune and county level cadres with minority nationalities at the end of 1981. The incumbent Han cadres could retire early, and could themselves find ways to transfer back to inland China. When the conference was over, pandemonium broke out among the Hans, and they began to flee at once, fearing that if they stayed behind the Uygurs might unleash retribution against them. Not long afterward, in his capacity as deputy premier of the State Council, Wang Zhen announced that the decisions of the "tri-level conference" were invalid. He said that Xinjiang differed from Tibet in that the 17 Points had earlier been agreed on for Tibet, and there were very few members of the Han race there. Filled with anger, Wang Zhen swore: "Whoever made such a decision is a traitor to the country!" The Chinese Communists then prevailed upon Wang Enmao to return to Xinjiang to pick up the pieces of this debacle. At that time, Wang Feng lost his position as party, government, and military head in Xinjiang. Wang Enmao was in charge for 3 years, during which the government functioned well and the people lived in peace. Today, however, the Han cadres have begun to make trouble once again.

Third is the youths to support the frontier. During the campaigns of the 1960's and 1970's to send educated youths up to the mountains and down to the countryside, and to prepare for war and prepare for famine, hundreds of thousands of young people from inland cities surged into Xinjiang to take part in production and the building of military units. These unmarried youths filled with vim, vigor, and vitality became the focal point for conflicts with the minority nationalities in Xinjiang during the past 20 years. During the Cultural Revolution period, in particular, many young people joined rebellious organizations that beat, smashed, looted, and burned, and that despised and destroyed the religious beliefs and customary practices of the minority peoples, thus causing numerous clashes with the minority peoples. The young people sent to support the frontier who lived on farms in southern Xinjiang, who had very low pay and benefits, whose life was hard, and whose children all became peasants, in particular, were intensely dissatisfied with the Chinese Communists. They frequently demonstrated, demanding to return to their

original places of residence. Numerous Uygurs also followed along behind the demonstrators shouting slogans to cheer them on. When asked what business of theirs this was, they said: "The Han want to return, and we agree!" At the beginning of 1979, the youths sent to support the frontier began to use various means to return to their original places of residence. A regulation at that time provided that any peasant or worker in Xinjiang who had retired parents in inland China could return to take their job. With the rehabilitation of cadres, numerous sons of cadres and "those who had a way out" rushed to return inland. Furthermore, at this time virtually all the old educated youth inland had returned to cities for placement in jobs, so the educated youth remaining in Xinjiang to support the frontier became more restless. For a time, flight from Xinjiang became a craze, but the government finally had the villages set up road blocks to inspect vehicle boarding permits. Many quarrels occurred for no reason at all. To this day, those farm reclamation warriors who remain in Xinjiang are still seeking ways to return inland.

The fourth is military personnel. Xinjiang Province has no minority nationality armed forces. Most military personnel come from various inland provinces. Xinjiang is under jurisdiction of the Lanzhou Military Region, whose commander is Fu Quanyou [0265 0356 2589]. (Fu was formerly the commander of the Chengdu Military Region, during which time he suppressed Tibetan resistance activities and implemented a curfew in Lhasa.) The political commissar is Cao Pengsheng [2580 5338 3932]. (Cao was formerly deputy political commissary of the Jinan Military Region. In 1989, he commanded the Jinan troops that entered Beijing to suppress the citizens movement, and instituted martial law.) Total strength consists of two combined arms armies (the 21st Army and the 47th Army). Deep underground in a sparsely populated region of Xinjiang, the Lanzhou Military Region has established a defense system and a nuclear weapons launch center. In addition, the nuclear weapons testing base of the National Defense Science, Technology, and Industry Commission, and a nuclear waste plant have been established in Xinjiang. According to one report, the USSR deployed 600,000 troops along the Sino-Mongolian border only to have the Chinese Communists station three times that number of troops, most of them in Xinjiang. There are no accurate figures. With the thaw in relations between China and the USSR in recent years, troop dispositions may have changed. For a long time military forces in Xinjiang have played the role of bloody oppressors, causing the minority nationalities to hate them thoroughly. During some separatist movements in the 1960's, one slogan opposed making Xinjiang a nuclear base.

Fifth is prisoners. During the early 1950's, the Chinese Communists decided on a strategy that linked reform of criminals and the development of Xinjiang, escorting 102,373 million labor reform prisoners from inland

China to Xinjiang to engage in production and the building of military forces. As a result of Deng Xiaoping's institution of a "strict" policy in recent years, inland prisons are filled to overflowing; consequently, another large number of major criminals have been sent to Xinjiang. Thus, Xinjiang has become a prisoner community. The minority peoples are rather disturbed about this, feeling that the Hans regard Xinjiang as a bleak and barbaric place that they use to punish criminals, which has prejudicial overtones. In addition, most of these prisoners are desperado types. With the slightest relaxation of supervision or control, they will either flee or commit a crime. They pose a threat to Xinjiang society. A book entitled *China's Big Western Prison* written by mainland author Jia Lusheng [6328 7627 3932] provides an expose.

The rapid influx of Han population into the Xinjiang region seriously damaged the economic production and the standard of living of minority nationality areas. During the 1960's, for example, the grain ration throughout the region was about 800 city jin per capita, and the region exported an additional several hundred million jin of grain each year. As a result of the overly rapid population increase (mostly Hans), by 1980 Xinjiang was no longer self-sufficient in grain, but had to bring in 200 million jin from other provinces.

In addition, because of the lack of laws or the miscarriage of justice, the large Han population influx confronted the minority nationalities with forced assimilation of their culture, education, customs and habits, which created more tension between the minority peoples and the Hans. We might do well to take a look at the effect of ethnic differences on activities in Xinjiang.

#### **Ethnic Differences Lead to Frequent Frictions**

After returning from a trip around Xinjiang at the end of 1988, the noted author of *Show the Fur On Your Tongue or Keep Your Mouth To Yourself*, Ma Jian [7456 1696], said to me, "The Uygurs are not only thin-skinned, but barbaric. In the Yecheng market, they surrounded me and took my camera from me; then, they rubbed the hide and the intestines of a just-killed sheep on me. Faced with a bunch of rascals, I could not think about doing anything, nor could I do anything." Later on, Ma Jian encountered a group of young Uygurs who dragged him from a long distance bus and beat him. The Han driver of a taxi in Kashi was very careful to avoid brushing against any Uygur children when driving through the tortuous streets. He told the correspondent, "If my vehicle touches these children, I am a dead man." This shows how fearful the Hans in Kashgar are. Ninety percent of the more than 100,000 local residents are Uygurs whose anti-Han sentiments are already high.

The conflicts between the nationalities cannot be laid entirely at the doorstep of the Chinese Communist authorities. The many differences among nationalities in various regards themselves cause conflicts. In daily life, for example, the Uygurs do not eat pork, donkey, dog, or

cat meat, nor do they eat mutton from which the blood has not been drained. They will not eat a sheep run over by a motor vehicle. They like to drink unboiled water, and they are not accustomed to using toilet paper. They just grab a handful of dirt from the ground and wipe themselves. Even the women use dirt during their menstrual period. They rarely bathe, and they care nothing about hygiene. They are more open than the Han about sexual relations as well. Most have extramarital sexual relations, but in public they are more proper than the Hans. Inter-marriage between Hans and Uygurs is rare. The differences between the Hans and other nationalities in Xinjiang in spoken language, written script, and religion are even greater. Most minority nationality cadres can speak the Han language, but only an extremely small number of Han cadres can speak Uygur. Naturally communication difficulties exist. Differences also exist in the time they use. There are two kinds of time in Xinjiang. One is Beijing time, and the other is Xinjiang time. The difference between the two is 2 hours. Party and government organs, and state-owned units operate on Beijing time, and so do most of the Han people, but movie theaters, places of business, and other things run by the local people operate on Xinjiang time.

If the nationalities do not mutually respect the others' customs, each supposing himself to be civilized and the other barbarous, clashes may frequently occur. The American magazine *NEWSWEEK* quoted a Uygur businessman in Kashi as saying, "The Hans say that we smell like lamb shishkabob, but if you converse with them, you discover that they are ignorant and ill-informed."

However, such differences are not the same in cities and the countryside. In cities, the Hans and the minority peoples live in mixed communities. Young unmarried people of all nationalities, in particular, associate with each other quite a lot. The degree of assimilation is high. For example, Islam forbids the drinking of alcohol by believers, however, after living among members of the Han race for a long time and drinking together noisily in large parties, the young Muslims temporarily put the Koran's prohibitions in the back of their minds. In the countryside, and particularly in southern Xinjiang, minority nationalities are fairly concentrated and there are very few Hans. Anti-Han sentiment runs high.... This is the main reason recent ethnic riots in Xinjiang have been in the southern part of the province.

#### **Religion Is the Fuse That Ignites Ethnic Disturbances**

The fuse that ignites the separatist movement or disturbances among China's minority nationalities is mostly religious issues. The usual official explanation given is as follows: "Incited by religion, and listening only to the commands from their own religious leaders, the ordinary people mindlessly joined in the riot," "a counterrevolutionary disturbance instigated by evildoers cloaked in religious ceremonies," and "attempts to use religion to damage national unity and split the nation." In his capacity as minister of the "State Nationalities Affairs Commission," Ismail Amat, a Uygur whom the Chinese



Communists have already assimilated, also openly denounce" those who "incite disturbances, using race or religion as a guise for carrying out independence activities."

Xinjiang is racially more complex than either Tibet or Inner Mongolia. It has all sorts of religious beliefs. The Uygurs, Kazaks, Huis, and Tajiks believe in Islam, the Mongolians and Tibetans believe in Lamaism, the Russians believe in Eastern Orthodox Christianity, and most of the Hans, Xibe, Manchus, and Daur believe in Buddhism. The adherents to Islam are most numerous and most powerful.

Quite a few adherents to Islam believe in *Pan-Islam* (also known as *Greater Islam*). So-called *Pan-Islam* is a religious and a political force that rose in central Asia during the mid-19th century. Its founder, Afghani, stood for the unity of all Muslims throughout the world regardless of race or national boundaries. Acting under leadership of a *Caliph*, he founded a unified Islamic empire. With regard to religion, he believed that the teachings of Islam should become the first course in Muslim national education. Although *Pan-Islam* did not succeed, this doctrine has never halted. On the contrary, during World War II, three international organizations were founded. In central Asia, *Pan-Islam* is fairly active, and it regularly poses demands for national self-determination against the main national group ruling them. Thus, for a long time, both China and the USSR have adopted a policy of resolute suppression of *Pan-Islam*. Muslims throughout the world today total 587 million, 427 million of whom are in Asia. Of these, one-third are in China. Xinjiang Province has 14 million.

In order to deal with these seemingly difficult to understand minority nationalities, the Chinese Communist authorities have tried to recruit Muslims into service to the state. They have tried to use them to promote relations with Arab and other Islamic nations. During the early 1950's, the Chinese mainland's Islamic Society sent large numbers of friendly delegations to Muslim countries to establish economic and political contacts. However, in 1953, the Muslims founded an independent Islamic kingdom in Hunan, which organized attacks on local "Party and government organs" during the Cultural Revolution. In 1974, it conducted an uprising in Yunnan Province, against which Mao Zedong adopted bloody repression. Reportedly in Yunnan Province alone, nearly 1,700 people died in that insurrection. As a result of their strong links with other Islamic countries, as well as sudden changes in the USSR's central Asian republics, mainland Muslims have become increasingly restive in recent years, particularly so in the Xinjiang region. The 26 September 1990 WASHINGTON POST quoted a 24 year old hardliner from Kashi Prefecture as saying, "If people wage war with the Chinese Communists, I will be very happy. If I die in the war, I will also be happy because Xinjiang is Turkestan, not China."

Religion is the fuse in the minority nationalities' separatist movement, yet the Chinese Communist authorities

are frequently the ones who light the fuse. The reasons is that the Chinese Communists have long pursued an extremely unyielding religious policy. They try to use administrative means to wipe out religion. On the pretext of eradicating religious exploitation, they raze the houses and land belonging to mosques and temples. On the pretext of *destroying the four olds*, they prohibit minority nationality religious activities, as well as the practice of their customs and habits, requiring that the minority nationalities forsake religion and hand in their religious articles. They regard religious believers as representatives and secret agents of foreign powers in China. They wantonly attack religious personages and destroy religious articles... Such mistaken policies and behavior doubtlessly hurt the feelings of minority peoples. Following the Cultural Revolution, the Chinese Communists liberalized their religious policies, yet mistakes continued to be made. On 11 March 1990, the XINJIANG RIBAO openly reported a "six point plan of action." It reiterated that "the Party is absolutely above religion," and that the number of mosques and Muslim schools must be strictly limited. It also demanded that religious affairs officers "make a clear break with those who preach separatism in the name of religion." Next, the authorities sealed up a number of mosques and Muslim schools in various places. In Kashi Prefecture alone, five privately run Muslim schools that opened 6 years previously were closed.

Furthermore, religious and ethnic issues are too intermingled to be unraveled. Religion is the source of strength for the minority peoples' separation movement, and it is also a longstanding focus for disgruntlement. Since religion enjoys a widespread social foundation in minority nationality areas and is strongly exclusive, the slightest misstep in handling religious issues will very likely escalate into a highly sensitive political and racial issue. In this sense, there is no doubt that the harsh suppression measures that the Chinese Communist authorities have adopted in Xinjiang are igniting the fuse.

#### Xinjiang Spiritual Leader Ai Sha [5337 3097]

Ai Sha's name recognition and influence is clearly much less than that of the spiritual leader of Tibet, the Dalai Lama. However, Ai Sha still occupies the position of spiritual leader in the Xinjiang separatist movement.

Ai Sha was a Muslim religious leader in Xinjiang during the 1940's. Before the Chinese Communists entered Xinjiang, he was a deputy secretary in the Xinjiang provincial government. With support from the Soviet Union, in 1945 both Xinjiang's Muslims and separatists in Mongolia revolted and established a short-lived "Independent Turkestan Republic" in which the Xinjiang leader was Ai Sha. In 1949, Ai Sha traveled abroad, using Istanbul, Turkey as his base. Together with other itinerant Uygurs and Kazaks, he supported at least seven separatist groups.

Ai Sha intended to recruit Xinjiang residents traveling abroad into a secret anti-Communist group active inside

mainland China called the "Turkic Party." The group that Ai Sha led also secretly delivered a publication called *The Voice of Turkestan* into Xinjiang. In this publication, Ai Sha criticized the Chinese Communist promotion of "colonialism" in Xinjiang, and he declared that "the Uygur people are verging on extinction just like the pandas."

In April 1990, the American magazine *NEWSWEEK* reported that some hooligan activists had penetrated Xinjiang. Uygur separatists "numbering 1,000" were fairly active in Alma Ata, the capital of Soviet Kazakhstan. After border controls were relaxed in 1984, quite a few separatists entered Xinjiang.

The 1990 demonstrators in Akto County echoed Ai Sha's call, advocating the establishment of an independent "Turkestan Republic," demonstrating that Ai Sha's power had penetrated Xinjiang.

The chairman of the Xinjiang-Uygur autonomous government, Tomur Dawamat, said in Beijing on 4 April 1991 that "Ai Sha has never stopped his Xinjiang independence activities. He has used all means to penetrate Xinjiang, and he threatens and opposes communism in an effort to overthrow the socialist system. An extremely small number of people in Xinjiang have truly been influenced by his thinking." Mai Ti [6314 2251], the author of the three books that the authorities criticized said in February 1991 that his point of view is identical to Ai Sha's (Author's Note: The three books are *The Uygurs*, *A Brief History of the Xiongnu*, and *Ancient Uygur Literature*).

Ai Sha does not admit to sending people into Xinjiang to foment rebellion, but he does acknowledge that "Xinjiang's demand for independence is not something that just happened today. The people of Xinjiang, like the peoples of Tibet and Mongolia, lived an independent life for several thousand years. We have no weapons, and internationally no one gives us help, and China is a powerful country. The Chinese Communists have moved very many people from inland China to Xinjiang, and the Xinjiang people are very much against this. We are a people and a land against which aggression has been committed."

Ai Sha also advised the people of Xinjiang to "continue organized and planned civilized struggle. Many of our people have already died. Beijing should emulate the USSR and eastern Europe in giving the people a little freedom, democracy, and human rights. It should not force the people of Xinjiang to rebel. Rebellions result from unbearable oppression."

Ai Sha is 89 years old. He is racked by illness and he is blind. He cannot directly lead the separatist movement as the Dalai Lama can. The role he plays is largely symbolic.

### Soviet Influence on Xinjiang

Soviet influence on the Xinjiang separatist movement may be divided into two periods, the political changes in the Soviet Union of recent years serving as a watershed.

Many students of mainland China believe that the USSR and its predecessor, Czarist Russia, have been the greatest source of turmoil in Xinjiang during the past 100 years. In a 1980 *RENMIN RIBAO* article, Wang Zhen condemned the USSR's sabotage and subversion in Xinjiang. It has only been because of the burying of the hatchet between the USSR and China in recent years that the Chinese Communists have not openly condemned the USSR.

Ever since Czarist Russia forced the Qing Dynasty to conclude the "Treaty of Beijing," there have been more than 15 different unequal treaties regarding Xinjiang soil. Large tracts of land have been plundered, and wars of aggression have been constantly launched against the Xinjiang region. What has been plundered and extorted cannot be recovered. Following the October Revolution, the USSR inherited the Czar's mandate. When Sheng Shicai ruled Xinjiang, he promulgated six main policies, which were completely pro-Soviet. He also made a pilgrimage to Stalin and joined the CPSU. In 1935, Sheng Shicai sent the Soviet spy Bao Erhan [7637 1422 3352] to conclude a treaty for a 5 million ruble loan agreement with the USSR by which authority over Xinjiang's politics, economy, armed forces, culture, and education all came under Soviet control. Soviet advisers and instructors kept watch over every government department. In 1933, the Soviet Red Army from Tacheng in Ili helped Sheng Shicai topple Zhang Peiyuan and Ma Chongying. In 1937, army and air forces from Tashkent wiped out Ma Hushan's forces. In 1944, the Kuomintang government sent Wu Zhongxin to replace Sheng Shicai, but the USSR continued to train rebel forces secretly, and egged on the Uygurs to demand that the Nationalist army withdraw from Xinjiang. It fomented a rebellion in Ili, and sent the Red Army to direct part in the war. Soviet forces attacked and occupied Fuli and Aksu counties. The chairman of Xinjiang Province that the Kuomintang government finally appointed, Bao Erhan, was also a Soviet spy. In his book, *Fifty Years in Xinjiang*, Bao confessed to it.

The Chinese Communists announced that the Ili riots of 1962 were entirely Soviet planned. Actually the rebel army leaders Yiminuofu (the first deputy commander of the South Xinjiang Military Region), and Zunongtaiyefu (deputy chief of staff of the Xinjiang Military Region) had established an "East Turkestan People's Liberation Committee" in Soviet territory in a plan to solve the Xinjiang situation. Thereafter incidents involving escapes to the USSR occurred frequently.

With the political changes in the USSR of recent years, Pan-Islam has raised its head and a trend toward separation has occurred in the republics of Armenia, Azerbaijan, and Tajikistan. The peoples in these places are of the same origin as many minority nationalities in Xinjiang. Their language and religious beliefs are similar.

Consequently, whenever separatist incidents occur in the USSR, they are quickly transmitted to Tajik and Uzbek regions of Xinjiang creating a tendency toward separation in these areas. More people are demanding to leave Xinjiang to go to live with people of the same race in the USSR. The declaration of independence of the Kazak Republic in the Soviet Union, which is territorially contiguous with Xinjiang, naturally has a very great deal of attraction for the more than 600,000 Kazaks in Xinjiang. In general, the Soviet Union's abandonment of communism, and its movement in the direction of democracy will lead to an ever more intense separatism among the minority peoples of Xinjiang, particularly the Russians, and an increasing number of people will flee to the Soviet Union.

At the same time, the development of cross-border trade between China and the USSR permits increased opportunities for minority peoples in Xinjiang having kinship ties in the USSR to visit relatives. Thus, the separatist movement has greater space and opportunities.

Such a cause-and-effect relationship was entirely predictable. Consequently, since the beginning of 1990, the emphasis of all Chinese Communist nationalities work has been on means of eliminating the separatist influence of the Soviet Union on China's minority nationalities.

#### **Difficulty Framing an Overall Independence Appeal in Xinjiang**

What can the Chinese Communists do to counter the increasing instability in Xinjiang? What kind of situation will the Xinjiang separatist movement develop into?

The experiences of the past 40 years suggest that the method that the Chinese Communists has used historically to deal with ethnic clashes is the "three in one" action, namely the use of three overlapping tactics of "a military strike," "a political takeover," and "incitement of the masses." When the Chinese Communists realize that the nature of the incidents is a separatist movement, they will not hesitate at all to suppress it militarily and ruthlessly. Simultaneous with the military suppression, they will do all possible to get influential leaders among the minority peoples to carry out a political takeover, and they will "vigorously incite the masses to unmask and criticize separatists." They will both create an impetus among the minority peoples that the masses of most nationalities also "oppose independence and oppose separation," while simultaneously engendering changes in the established minority nationality ranking system, things that traditionally elevate status being cold-shouldered temporarily and CPC committees and people's congresses being given serious attention temporarily. One might say that during the past 40 years, the Chinese Communists have developed a whole body of plans, policies, mechanisms and experiences to deal with ethnic disturbances. (The nucleus of this body of experiences to be prepared at all times to carry out military suppression).

In addition to the aforementioned Vice President Wang Zhen, high level leaders in Beijing including Jiang Zemin, Li Peng, Qiao Shi, and Wang Enmao have also stated publicly their views on the Xinjiang separatist movement.

At a meeting of chairman of the State Nationalities Affairs Committee on 13 February 1989, Li Peng said: "We cannot be paralyzed and inattentive. We must quell all separatist movements during the stage when they are brewing."

During an inspection tour of Xinjiang from 27 to 29 July 1990, Qiao Shi warned local cadres at all levels that, "We must clearly understand that there can be no relaxation of opposition to separatism."

During a visit to Xinjiang in September 1990, Jiang Zemin left behind a 12 character injunction as follows: "Think straight, seek unity, look toward development, and strive for wealth and power."

In January 1990, Wang Enmao issued an order to the Xinjiang People's Armed Police calling for more riot suppression exercises and better intelligence work. He said, "We see very clearly that so long as there is any instability, it is necessary to heighten vigilance to guard against the occurrence of disorders."

From these remarks we can see clearly that the Chinese Communists are giving very serious attention to the separatist movement among the minority peoples of Xinjiang. Until such time as there is a fundamental change in the political situation in Beijing, we believe that the separatist movement in Xinjiang will be unable to shape the most important elements into a macroclimate.

In addition, so long as military suppression continues, Xinjiang will be unable to attain the power for separation like that in Tibet for three main reasons as follows. First of all, most of Xinjiang's minority peoples live a nomadic or semi-nomadic life. Their inherent sense of national territory is not strong, and awareness about independence is generally fairly weak. Second, there are 46 different minority peoples in Xinjiang. Although some of them share some customs and religious beliefs, unlike Tibet, they do not constitute an overwhelming majority of the population. Thus, gaining a consensus is very difficult. Third, up until the time of the Qing Dynasty, Tibet was not formally a province of China, but Xinjiang was. However, these reasons only demonstrate the difficulty in framing an overall appeal for independence in Xinjiang like that in Tibet. It is not to say that disturbances will not occur in Xinjiang.

The writer sees two possibilities for the separatist movement in Xinjiang during the near term. One is continuance of sporadic disorders, the other is flight from Xinjiang, the people going to the USSR to rely on their relatives there. In short, formation of a large scale independence movement will be difficult under Chinese Communist rule, but small scale disturbances will be frequent.



## NATIONAL AFFAIRS, POLICY

### Ma Hong Expounds on Problems in Enterprises

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pp 1-8

[Article by Ma Hong (7456 3163) of the Economic, Technological and Social Development Research Center under the State Council, written in October 1991, edited by Li Mu (4339 2606) "On Several Problems in Vitalizing Large and Medium Enterprises"]

[Text] In the 12 years since the beginning of reforms, the party and government have consistently taken enlivening enterprises as an important task in economic work. In particular, since the implementation of economic improvement and rectification, enlivening large and medium enterprises has been placed in a more prominent position. The party Central Committee and the State Council have adopted a series of effective measures and realized very major achievements in this respect. It should be said that the overall situation of vigor in our country's enterprises at present, including the situation in large and medium enterprises, has seen a marked improvement as compared to the period prior to reforms. However, there are quite a number of enterprises, especially some large and medium state enterprises, which still do not have sufficient vigor. The phenomena which has appeared in recent years—such as stagnant sales, costs increases, performance decline and increases in both the volume of losses and the number of loss makers—are not only not beneficial to improving the state's financial balance of payments situation, but will also lead to an obstructed economic cycle, will not be beneficial to sustained, stable, and coordinated development of the national economy, and will not be beneficial in establishing a fine image for the socialist economy. The party Central Committee and the State Council have decided to take the vitalization of large and medium enterprises as the central task at present and for some time to come. This is completely correct. It both overcomes the pressing demands of the current economic difficulties and is an assault strategy for us in deepening economic structural reform and in establishing a new economic operational mechanism. If the large and medium enterprises can truly put forth some vigor, we will be able to say that our country's planned commodity economy structure has taken embryonic shape. Thereby, it will be possible to enliven the overall economy and only then will the superiorities of socialism be fully brought into play. Below, I wish to put forward a few ideas on several specific questions in vitalizing enterprises.

#### 1. Why Do We Need to Take the Vitalization of Large and Medium Enterprises as a Major Task

First, large and medium enterprises are where the lifeblood of our country's national economy lies. According to relevant statistical data, in 1989, although large and medium state industrial enterprises only constituted

0.13 percent of the total number of industrial enterprises, their realized profits and taxes constituted 61.1 percent of the total, about 80 percent of state financial income comes from large and medium state enterprises, as far as product output is concerned, the total or majority of some major industrial products is supplied by large and medium enterprises. All crude oil and railway locomotives are produced by large and medium enterprises. Also, over 90 percent of oil products, electricity, steel, tractors, trucks, and generating equipment, over 80 percent of vehicles, pig iron, and steel products, and about 50 percent of raw coal are produced by these large and medium state enterprises. Since the establishment of the PRC, the accumulated state fixed asset investment in large and medium enterprises has constituted 67.2 percent of the total amount of total basic construction investment in industry. Seen in terms of production technology and technical equipment, the large and medium state enterprises centralize advanced technical equipment within the country and concentrate domestic industrial superlatives. In terms of scientific and technical personnel, close to 95 percent are centralized in large and medium state enterprises. This means that large and medium state enterprises represent and reflect the overall level and strengths of our country's economy, and constitute the economic base and mainstay of our country's socialist modernization. Seen from the relationship between large and medium state enterprises and small state enterprises as well as with enterprises from other economic components, because large and medium enterprises supply energy, raw materials, and advanced production technology and equipment, they provide the conditions for the vibrant development of a large number of small enterprises, township and town enterprises, and enterprises in other economic components. Thus, in a certain sense, the development of the smaller enterprises benefits from the basic role and supporting role of the large and medium enterprises. The especially important role of large and medium enterprises in our country's industrial structure determines that in our country's economic development in the 1990s, we should take the vitalizing of large and medium enterprises as a strategic task and, through restoring their vigor, spur on the vitalization of the national economy. If the large and medium enterprises lack vigor, over the next 10 years the industrial growth and technical upgrading of the entire industrial sector will be affected, and it will be difficult for the overall economy to realize the switch in development mode from low-level quantitative expansion to an intensive development mode of continuous structural optimization.

Second, vitalizing large and medium enterprises is a requirement for upholding the guidance of the socialist publicly-owned economy. The vast majority of large and medium enterprises are owned by all the people, and their vigor reflects the image of enterprises owned by all the people and determines their prospects and fate. In fact, it will also affect the orientation of socialist economic reform. Only by truly vitalizing large and medium

enterprises will it be possible to consolidate the guiding position of the whole-people ownership economy.

Third, in recent years, the performance of large and medium enterprises, and especially of whole-people ownership enterprises, has declined. This deterioration in the operational situation has become an extremely pressing problem. Over the last 10 years, the average annual growth in national industrial output has been 12 percent. Of this, whole-people ownership industrial output grew 7 percent. The speed of growth in whole-people ownership industry was thus greatly lower than the average national figure. The proportion constituted by the output value of whole-people ownership industry has over the last 10 years dropped by close to 20 percent, which was a drop of 2 percentage points every year. At the same time, the economic performance of whole-people ownership enterprises has in recent years not only not improved but has continually declined. In 1990, the realized profits and taxes of state industrial enterprises within the budget declined 18.5 percent over the year. In this decline, profits fell 38 percent, enterprise loss-makers rose to about 30 percent of total enterprises, and the volume of losses grew 1.3 times. In the first quarter of this year, in a situation where production had seen some recovery, the number of loss-makers continued to expand, reaching 40 percent. If the situation whereby some enterprises declared profits but actually incurred losses is included, the situation is even more serious. The large and medium whole-people ownership enterprises do not have the vigor of the medium and small collective enterprises and the township and town enterprises. This is an undeniable fact. Only by squarely facing this fact, analyzing its causes, and adopting correct policies and measures will it be able to turn around the current passive situation.

## 2. Standards for Enlivened Enterprises

Since the beginning of economic structural reform, we have consistently stressed enlivening enterprises. Enlivening enterprises has already become a catchphrase that everybody knows, but what is its exact meaning, through what measures are enterprises to be enlivened, and what standards are to be employed in assessing whether a particular enterprise has been enlivened? People do not have uniform answers to these questions.

Some comrades take the level of profit rates as the standard for whether or not an enterprise is enlivened, and they classify and appraise enterprises on this basis. For example, they hold that enterprises with high profits are enlivened and those which do not have high profits or incurred losses have not been vitalized or lack vigor. Of course, if all enterprises were in conditions of equal competition, the level of profit would indeed to a certain degree comprehensively reflect their operational situation and vigor. However, under our country's traditional system and under the current conditions where dual structures coexist and price parity relationships between products is extremely irrational, the level of profit rates cannot reflect the operational situation of enterprises in

an overall and accurate way. Some enterprises have quite high profits but do not obtain their profits through relying on improving enterprise technology or labor productivity, reducing material consumption or developing new products. Rather, profits are formed through various policy guarantees. The losses of some other enterprises likewise are not operational in nature but are determined by policy. For example, there are very large disparities between the profit rates of different industries. In some cases, the entire industry suffers losses (such as the coal and oil industries), while in some industries profit rates may be several times higher than in other industries. Thus, in a situation where enterprises lack conditions of equal competition, and cannot autonomously carry out production decisionmaking and set prices in accordance with the market situation, the level of profit rates cannot become a basic standard for assessing whether or not an enterprise has vigor.

An enterprise's vigor is a comprehensive reflection of its overall competitiveness. Seen from characteristics manifested by some enterprises rich in vigor, enterprise vigor is determined by diverse factors. At present, about 30 percent of our country's large and medium enterprises are quite vigorous, while about 20 percent can be said to be rich in vigor. About 30 percent are seriously deficient in vigor. The remainder present an ordinary operational situation. Under the same structural conditions and under a generally similar policy environment, why are there enterprises which are thriving and vigorous and others which are in operational difficulties? According to our survey, all of the enterprises which have good operational situations greatly stress new product development, grasp market demand information in a timely way and, in accordance with changes in market demand, continually develop new products which satisfy market demand domestically and abroad and have ready markets. Thus, the competitiveness of their products is very strong, and even when there is market weakness, they are not weak. During the previous period of market weakness, quite a number of such enterprises saw major growth in output value, taxes and profits, and enterprise assets. Generally, these enterprises had a strong and powerful leading group, and the leadership groups were unified, honest and hardworking, had a strong enterprising spirit, and enjoyed the trust of the staff and workers. Also, the morale of the staff and workers was very high, and there was a strong cohesive force within the enterprise. In a speech to the recently convened Central Work Conference, Comrade Li Peng summed up enterprise vigor in six phrases: Its products are competitive, it has a capacity to accord with market changes, its scientific and technological research give it the capacity for development, it is able to increase assets, the leadership is unified and takes initiative, and there is a cohesiveness between the staff and workers. This is an outline and summation of our experiences in enlivening enterprises in recent years. If an enterprise has strong capacities in these six aspects, it will undoubtedly be full of vigor and vitality. At the same time, from these enterprises we are able to see hope in enlivening large

and medium enterprises. As long as the measures are effective and the policies correct, then not only will it be possible to enliven large and medium enterprises, but they should and will be able to operate even better because of their superiorities in terms of personnel, technology, equipment, and scale.

Seen from another angle, those enterprises which do not operate well are often those which are used to those practices under the traditional system in which whatever an enterprise produced the state would purchase. Thus, they are incapable of according with the new situation of a planned commodity economy. They do not stress new product development and gaining information on ever-changing market demand. Thus, in situations of market weakness and change, their products lack competitiveness, product sales lag and production capacity lies idle. They thus fall into operational difficulties, often various sorts of problems exist in the leadership groups of these enterprises, morale among staff and workers is low, labor discipline is lax, and serious waste exists.

Some comrades see enlivening enterprises only as a matter of resolving problems in terms of external conditions. Actually alone, this is not sufficient. Rather, at the same time as putting external relationships in order, the key lies in turning attention within and fully mobilizing the various positive factors within the enterprise. Only thereby will a thriving market competitiveness be formed. Enterprises in our country and abroad are like this. Recently, I saw an article noting that some persons had carried out research on and comparison of the vigor of some enterprises in Japan and the United States, and they came to the conclusion that an enterprise's level of vigor was determined by many factors including enterprise culture, operators' decisionmaking abilities, internal organizational systems, market sales situations and other factors. Research has proven that the characteristics of enterprises which are rich in vigor are as follows: 1) The degree of climax of operational ideas is quite high. That is, the operational ideas are widely imbued into the staff and workers, to raise their morale. 2) Enterprises run by developmental entrepreneurs are more vigorous than enterprises operated by management-type entrepreneurs. 3) The amount of new product development and degree of technological development is higher than other enterprises. These enterprises often have five to six product development groups concurrently engaged in developing new products. 4) Multi-pronged operations. Vigorous enterprises often have a leading product group constituted by three to five strategic products. 5) Their products hold quite a high proportion of the market. These characteristics are essentially the same as the six strengths mentioned above, which reflect the comprehensive operational abilities of the enterprises.

### 3. The Key Lies in Perfecting Enterprise Operational Mechanisms

The vitalizing of large and medium enterprises should be centered on the work of strengthening comprehensive

operational capacities. That which needs to be resolved on the structural level should be resolved on the structural level, that which needs to be perfected on the policy level should be subject to readjustment on the policy level, and that which requires strengthening on the management level should be resolved on the management level. The enlivening of enterprises needs to be accomplished through a different methods employing different measures.

One method is, if enterprises have difficulties, to help them resolve those difficulties and in particular to give assistance to those enterprises which have difficulties in their operations. When enterprises have difficulties in sales, relevant departments could assist with sales or even purchase products and guarantee sales. When enterprises have insufficient circulating funds, further circulating funds could be made available to them or bank credit could be increased. When enterprise operations are not good, enterprises might enjoy reduced taxes or be allowed to retain more profits and, if losses are incurred, they could be subsidized. Also, such enterprises could be given priority consideration in technical transformation and other aspects, and other methods. In this way, these enterprises will be able to turn losses into profits and maintain their existence. Although these measures could resolve some temporary difficulties, they would only be treating the symptoms and not dealing with the root causes and, over the long-term, they will not be able to resolve essential problems.

A second way to vitalize enterprises is to provide preferential policies to some so that in their production operations, they are in some sort of advantageous position. For example, for some enterprises, the state could make financial concessions, reduce taxes and allow retention of profits, provide preferential arrangements in terms of bank credit, allow special depreciation advantages, provide raw materials and power at cheap prices within the plans and other measures. Such policies can be said to be necessary for those enterprises which have development prospects, but which temporarily have difficulties in operations. However, these measures cannot be said to be enlivening enterprises in the true sense. First, preferential policies provided by the state can only be extended to specific enterprises and not to all enterprises. If all enterprises enjoy preferential policies, then actually there will be no preferential policies. Further, state financial strengths are limited, and it is only possible to provide preferential treatment over a small range. Does this mean that the remaining majority of enterprises need not be enlivened? Such a claim is nonsense. Further, blind preferential policies can easily lead to enterprise dependence on the state, enterprise spirit will degenerate, and this will produce a decline in competitiveness. This will not only not result in these enterprises being enlivened, but will achieve the opposite effect. In recent years, the economic performance of state industrial enterprises within the budget has continually declined. The main reason for this lies not in the fact that their operational conditions are far poorer than other



enterprises, but in the fact that the operational motivation of these enterprises is not sufficient.

A third way of enlivening enterprises is to ensure, through deepening reform and perfecting enterprise operational mechanisms, that the various sorts of enterprises can, in an operational environment of equal competition, as swiftly as possible take the road of autonomy in operations and assumption of sole responsibility for profits and losses. This is the only correct choice in enlivening enterprises, especially large and medium enterprises.

The concept of enlivening enterprises was put forward in response to the situation under the traditional system whereby enterprises were appendages of administrative organs. Thus, the original intention of enlivening enterprises was to allow enterprises, through resolving the relationship between government and enterprise functions, to throw off excessive administrative interference and gradually become relatively independent socialist commodity producers and operators. The economic structural reform over more than 10 years has been advanced through continually engaging in exploration in this respect. The Seventh Plenary Session of the 12th CPC Central Committee and the Fourth Session of the Seventh NPC Standing Committee, which were convened recently, also further set down an autonomous operation of enterprises and their assumption of sole responsibility for profits and losses as the basic orientation for deepening reform in the future. The "PRC Whole-People Ownership Industrial Enterprise Law" passed by the first session of the Seventh NPC Standing Committee in 1988, set down very detailed stipulations in respect of the nature, rights, and obligations of enterprises. This provided a basic legal foundation for us in enlivening enterprises. The second article of the "Enterprise Law" notes that enterprises "are socialist commodity production and operation units which decide their own operations in accordance with the law, are responsible for their own profits and losses, and have independent accounting." This shows that enterprises make their own operational decisions and have the right to arrange autonomously their own production and operational activities. At the same time, they are responsible for their own profits and losses and independently shoulder responsibility for their own operational achievements. The "Enterprise Bankruptcy Law" further stipulates that when an enterprise's assets cannot meet its liabilities, it will be declared bankrupt in accordance with the law. This provides a more complete legal basis for enterprises taking sole responsibility for profits and losses. The "Enterprise Law" specifically stipulates the 13 rights of operational autonomy which enterprises must have in implementing autonomous operations and assuming sole responsibility for profits and losses, and sets down the nine obligations which enterprises should take on. Today, these various things set down in the "Enterprise Law" have not yet been fully given effect. Of course, the "Enterprise Law" only stipulates some basic principles, and we need to do a great deal of exploration

and make great efforts in finding how to convert these legal stipulations into an actual operational mechanism.

To enliven enterprises at present, it is necessary, in accordance with the demands of the enterprise law and the principles of autonomous operations and assumption of sole responsibility for profits and losses, to earnestly change and perfect the enterprise operational mechanism. Operational mechanism is a concept with which people are quite familiar. What is meant by perfecting the operational mechanism is that, in accordance with the requirements of a socialist planned commodity economy, we must put in order the various responsibilities, rights, and interests relationships in an enterprise's operations, so that the enterprise becomes a true market entity. Perfecting the enterprise operational mechanism requires putting into order the external relationships and even more requires properly arranging internal mechanisms. The proper arrangements of external relationships is intended to better perfect the internal mechanism of enterprises, so that enterprise competitiveness can be better brought into play. Specifically, perfecting enterprise operational mechanisms involves at least the following four aspects:

1. Arranging well the motivational and encouragement mechanisms. Arranging well the motivational mechanism first requires raising enterprises initiative and creativity in participating in market competition, so that when the superior succeed and the inferior are weeded out, strong competitiveness is maintained. In respect of the staff and workers within an enterprise, effective encouragement measures should be formed. Through effective labor assessment and personnel employment and dismissal systems, the policy of distribution according to work should be truly implemented. This will achieve a situation where "the diligent are rewarded and the lazy punished" and will break down "the big pot." This will actively stimulate within the whole body of staff and workers a spirit of active contribution and a striving to do better. In this respect, many enterprises rich in vigor have already created many good experiences. Many enterprises have, under the condition of not breaking through the total volume of wages set by the state, implemented internal wage systems whereby the incomes of staff and workers are linked with their labor contributions in their posts. This has quite effectively resolved the problem which had long remained unresolved, of distribution within enterprises being unfair. Many enterprises, in response to the situation of excessive surplus workers and the phenomenon of people coming to work but not doing any work, set down a specific number of workers in accordance with the volume of work at particular work posts and the surplus workers are removed. Those workers removed go onto a labor market within the enterprise. After training, those who meet the required standards are assigned to new posts or they seek new employment opportunities. When they enter the labor market, they only receive a part of their wages or just living expenses. In this way, there is competition created among the staff and workers to

obtain labor posts. There are other enterprises which put stress on promoting cadres from the workers and at regular intervals there is technical appraisal of staff and workers at their posts and their technical grade is assessed. This greatly encourages the zeal of the staff and workers for mastering techniques and devoting themselves to their work. Still other enterprises implement project achievement awards for technical personnel, motivating the enthusiasm of technical personnel for engaging in product and technology development. In all the enterprises which have acted in these ways, the labor attitude, work enthusiasm, morale, and cohesion among their staff and workers were greatly increased.

2. Forming an effective restraint mechanism. At present, one of the very major problems which exists in the process of enlivening enterprises is that on the one hand enterprise operational autonomy rights have not been completely implemented, while on the other hand some enterprises cannot correctly utilize the rights of autonomy which they already have. This is prominently manifested in the serious slanting of income to individuals and in the growth of the incomes of staff and workers exceeding the growth in labor productivity. This not only affects normal enterprise accumulation, but some enterprises think nothing of using circulating funds, bank credit, and bonds receipts to increase the incomes of staff and workers. They sacrifice the future of the enterprise for the immediate interests of the staff and workers. There are other enterprises which do not stress a reduction of expenditure through careful calculation and strict budgeting. They spend money hand over fist without concerning themselves with results. They make funds available for any costs, and they use public funds to entertain guests, send gifts, and pay for tours. At the same time, serious waste exists in the various production and construction links. The key to the existence of these phenomena lies in the fact that an effective restraint mechanism for enterprises has not yet been formed. In resolving these problems, it is necessary to resolve gradually, on the structural level, the problem of enterprises assuming responsibility for their own profits and losses, overcome the psychology of reliance on the state, and gradually resolve the problem of the government having unlimited responsibility for enterprise operations. Upon handing down power to enterprises, governments should use legal measures to standardize the activities of enterprises and increase the responsibilities which enterprises must take on in respect of the state. In the future, we should gradually resolve well the restraint mechanism problem, to raise the enterprise self-restraint capacity.

3. Perfecting an enterprise accumulation mechanism. In the process of economic structural reform over recent years, an independent interests mechanism in enterprises has been initially formed. This has been mainly reflected in linking the incomes of staff and workers with operational results. However, an enterprise accumulation mechanism has still not been formed. This is a weak link in the enterprise mechanism at present. The lack of vigor by large and medium enterprises is, to a very great

degree, linked with this. After the incomes of staff and workers, profits and taxes, and the various other payments are taken out of enterprise income, there is nothing much left for accumulation. Thus, the enterprise is unable to renew technology and equipment and unable to develop new products. This results in the competitiveness of the enterprise declining. The key to resolving this problem lies in ensuring that the large and medium enterprises can ensure that a fixed proportion of their income is used for accumulation, to expand reproduction. To this end, 1) We should, on the basis of a reappraisal of state assets, appropriately raise depreciation rates, gradually there should be a cessation in the payment of proportional amounts from depreciation funds for energy and communications construction funds and extra-budgetary regulation funds. 2) The phenomenon of increases in the income of staff and workers exceeding the increase in labor productivity should be curbed to ensure firmly that a certain proportion of enterprises' retained profits are used in accumulation. 3) Improving staff and simplifying administration. This includes tasks in two aspects. First, it is necessary to resolve the problem whereby personnel in the functional departments within enterprises are expanding and second- and third-line personnel are excessive, to reduce the number of nonproductive personnel. In recent years, because of a very swift rise in the proportion of nonproductive personnel, management costs as a proportion of total production costs of enterprises have risen from 7.7 percent in 1980 to 15.7 percent in 1990. If this problem is not resolved, it will be very difficult for enterprises to escape the situation of high costs and low performance. Second, it is necessary to resolve the problem of personnel inflation in state administrative and institutional units, which is putting pressure on financial expenditure. At present, state expenditures are greater than revenue, while in another respect the duties shouldered by enterprises are too heavy. One of the major reasons for this is that personnel and costs of state administrative and institutional units have grown at a rate which exceeds the growth in national income. Over the period 1980-90, in our country the average annual growth in national income, calculated in accordance with current prices, grew 14.6 percent. However, over the same period, administrative and operational costs grew by 17.3 percent. Administrative and operational costs as a percentage of financial expenditure grew from 4.4 percent in 1978 to 9.7 percent in 1990. It should be recognized that the speedy increase in administrative and operational costs was closely related with the insufficiency of enterprise accumulation. If we are to achieve a balance between financial revenue and expenditure and reduce the tax burden on enterprises, we need to put effort into streamlining personnel and holding down expenditures on administrative and operational costs.

4. A macroeconomic regulatory and control mechanism. In enlivening large and medium enterprises, apart from putting in order the internal operational mechanism of the enterprises, the government should also, through positive and effective macroeconomic policy guidance,

put effort into creating a fine policy and structural environment for enterprise operations. At present, we must particularly perform the following tasks well: 1) stably promoting price reform and, through putting price parity relations in order and creating price formation mechanisms, resolving the problem of irrationality in product price parity, changing the situation where mandatory planned product prices are too low and the disadvantageous position of large and medium enterprises on the pricing level. 2) Further implementing enterprise autonomy and creating conditions for all types of enterprises to compete equally, including reducing the proportion of mandatory planning and appropriately reducing state enterprise income tax. 3) Giving autonomy in foreign trade to some enterprises with the proper conditions. 4) Through positive policy guidance, creating appropriate policy and economic conditions for enlivening enterprises, actively doing well the work of clearing up debt chains, and ensuring discipline in settling of accounts. Also, doing this through balancing total supply and demand, so that items over supply are cut back and items in short supply are supported, and there is thereby continuous structural optimization.

It should be pointed out that at present, in enlivening large and medium enterprises, there is a need to put government-enterprise relations in order and resolve well the problem of external mechanisms. At the same time, it is also necessary for the enterprise to look within and to put effort into deepening internal reform and perfecting internal management. Arranging the internal mechanism well is the most important aspect. Some large and medium enterprises on the one hand lack vigor, but on the other are full of great potential. Only by effectively bringing this potential into play will enterprises be able to swiftly escape current operational difficulties.

#### 4. Doing Well in the Building of Leadership Groups and Staff and Worker Contingents

In the process of enlivening enterprises, the people factor is most important. A good economic mechanism can only be fully mobilized and fully brought into play through human enthusiasm. Thus, it is necessary to grasp, as the primary task, doing well in the building of leadership groups and the building of staff and worker contingents. The operational situation of an enterprise is very closely linked with what the leadership group in the enterprise is like. Whether or not the operational strategy of an enterprise is correct determines whether or not the enthusiasm of the staff and workers can be mobilized, and whether or not normal production operation activities can be effectively organized. These all depend on the operational capacities and enterprise spirit of the leadership group as well as the popular trust they enjoy among the masses. In different enterprises within the same industry, equipment, personnel, and technology conditions are often very similar, but because of the

different situation of leadership groups, results of enterprise operations are often very different. Thus, if enterprises are to have vigor, first they have to have a strong leadership group. Apart from having operational skills and an enterprising spirit, the leadership group must be fair and honest and have the ability to unify people. This was a problem we perceived very strongly in our survey of enterprises. This is also a major difference between our socialist enterprises and capitalist enterprises. Thus, in the current enlivening of enterprises, the building of enterprise leadership groups should be grasped as a prominent task. We must resolve the problem which exists in some enterprise in which there is no unity within leadership groups and there is a struggle between the director as "center" and the secretary as "core", and truly steer energy into production and operational activities. In enterprises where the party secretary and the director argue back and forth, measures should be adopted as quickly as possible to resolve this problem. Outstanding persons who have a firm political stand, a pioneering and enterprising spirit, are fair and honest, and who have the trust of the masses should be selected to manage the enterprise. With regard to those enterprises which are not operating well and which have insufficient vigor, we should analyze problems and seek reasons in the leadership group. With regard to those operators use their posts for personal gain through various means, who harm the state to benefit themselves, and who cause serious property losses to the state, not only should those in leadership positions be changed, but legal responsibility should be affixed.

At the same time, the building of the staff and worker contingent should be taken as a major aspect in enlivening enterprises. The low quality among staff and workers is also an important reason for the lack of vigor in enterprises. The staff and workers of some enterprises do not stress professional proficiency, their technical operations are not good, equipment cannot be used well, and product quality cannot be guaranteed. In some enterprises, morale is poor and the phenomenon of people attending work but not putting in any effort exists to a serious degree. In resolving these problems, it is necessary to stress material incentives and also to strengthen education and labor personnel management systems. It is necessary to provide regular technical and professional training for staff and workers, carry out regular appraisals, form an effective technical promotion system, and truly link income of staff and workers with their degree of technical proficiency and labor efforts. At the same time, it is necessary to bring into play the superiorities of our ideological and political work and put efforts into strengthening it. The reason we were able, from the 1950s to the beginning of the 1960s, under those harsh conditions, to overcome the various difficulties and attain such startling achievements is inseparable from the fact that we had an outstanding contingent of staff and workers who could bear hardships and difficult work, did not concern themselves with reward, were happy to make a contribution, and were united in heart.



and mind with the party. In recent years, foreign management theory and management practice has greatly stressed participation in management by staff and workers, and the morale of staff and workers and enterprise culture are now taken as major indicators in appraising the vigor of an enterprise. The participation of Japanese workers in management was stimulated by our own "two participations, one reform, and three-way combination" in the past and, through improvement, it forms a basic reason for the thriving competitiveness of Japanese enterprises. Our large and medium state enterprises are part of the socialist public-ownership economy. The working class, as the masters, should in enterprises management give play to our political superiority, and form a contingent of staff and workers who are up to the mark ideologically and professionally, dare to contribute with the spirit of masters, and have a very strong cohesiveness. Wholeheartedly relying on the working class is a basic measure in enlivening enterprises.

At the same time as enlivening large and medium enterprises, we also must stress the development of other economic components and other types of enterprises. This is because economic activities are all mutually linked and have mutual causes and effects. Only when there is coordinated development among the enterprises of different economic components will large and medium enterprises see better development and will our economy become more prosperous.

#### Article Views Economic Situation, Construction

##### Part One

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[Article by Wang Menghui (3769 1123 1145), deputy director of the State Council's Research Department "The Current Economic Situation and Tasks of Economic Construction (Part One)"]

[11 Nov 91 pp 6-8]

[Text]

I.

Because we upheld economic construction as the center and practiced reform and opening up in the 1980's, our country's economic pattern experienced marked changes. The rural economy developed thoroughly, and the output of major farm products greatly increased, creating material conditions for solving the problem of food and clothing for the people. The emergence of township and town enterprises has a very important meaning and greatly changed the industrial structure in the rural areas. The transformation of agricultural technology took on a new pace.

Throughout the 1980's, industrial production increased by more than 12 percent a year on the average, technological standards improved, and the adjustment of product mix made marked progress.

The total amount of investment in capital construction surpassed the total amount in the preceding 30 years and over 1,000 major projects were built and began production, enhancing the staying power for economic development in the 1990's.

Stimulated by the open-door policy, our country's economy moved onto the world stage at a big pace, and we scored great results in importing technology and in foreign trade. In 1980, the world's total amount of exports was some \$2 trillion, our country's was \$18 billion, accounting for 0.9 percent of the total. Last year, the world's total amount of exports was some \$3.5 trillion, a 75 percent increase over 1980, our country's was \$62 billion, a 200 percent increase, accounting for 1.8 percent of the world's total. The growth of our country's exports surpassed the growth of the world's foreign trade, as well as surpassing the speed of economic growth in our country, and this indicates that the degree of openness of our country's economy is rapidly increasing.

China's reform, opening up, and achievement in economic construction was one of the most eye-catching events of the world's economic development in the 1980's and public opinion around the world gave it a positive appraisal.

At the same time, when we fully affirm the result, we must also soberly perceive the problems existing in economic development. First, in the second half of the 1980's, due to the trend in seeking instant results in economic construction and reform, the economy was overheated and inflation occurred to the extent that rectification and improvement must be carried out, and this caused a rather big fluctuation in economic development. Second, the conflict in industrial structure was relatively acute, the development of basic industries and facilities was slow, while the development of the processing industry was too rapid, and this affected the improvement of the whole of macroeconomic returns. Third, in the course of economic restructuring, because there were no norms for market behavior, in addition to the lack of prompt macroeconomic management by the state, market order and economic order were chaotic and this affected the coordinated operation of the economy and became the economic root of some corrupt phenomena. Fourth, distribution of national income overly inclined toward individuals. In national income, the proportion of state finance (including central and local finances) decreased, and the growth of income of a wage nature far surpassed the speed of growth of production and of the increase in labor productivity. Fifth, in the domains of production, construction, circulation, and even consumption, there was a serious phenomenon of high input, low output, high consumption, low returns, and waste. When these problems—especially inflation—were combined, they reached a very serious degree in the second half of 1988, not only hindering healthy development of the economy, but also affecting the smooth process of reform. It was necessary to carry out rectification and improvement.

The three-year rectification and improvement has scored marked results. The most salient manifestation is that inflation is brought under control. Last year's price index dropped to 2.1 percent and this year it will not surpass the planned 6 percent. In the period of rectification and improvement, agriculture was strengthened. In 1990, per unit grain output and total grain output all set records and the state promptly increased several tens of billions jin of grain reserve, thus enhancing the ability to fight this year's big flood disaster. Although this year we met the serious disaster and output dropped when compared with last year, we were still able to fight for a better figure. As for industrial production, because we practiced a retrenchment policy, from the second half of 1989 to the first half of 1990, growth was very slow and there was even a negative growth. Because the measures of rectification and improvement were implemented one by one and the intensity of austerity was adjusted, beginning in the second half of 1990, growth gradually returned to the level of a normal year. From January to August 1991, industrial production increased 13.7 percent over the same period last year, and it is estimated that it will increase by more than 10 percent in the whole year, surpassing the 8 percent originally planned.

During rectification and improvement, adjustment of the industrial structure made further progress. In particular, the increment adjustment made more spectacular headway. The weak links such as energy and raw materials were strengthened, industries which oversupplied consumer goods and the investment in nonproductive construction such as restaurants and halls were cut back.

In the area of foreign trade, because we resolutely opened up to the outside world, import and export trade greatly increased during the period of rectification and improvement and the state's foreign exchange balance markedly increased. Up to the end of August, the state's foreign exchange balance was \$18 billion and it might reach \$20 billion by the end of the year. This provides us with very good and favorable conditions for developing international economic interaction and importing advanced technologies. Utilization of foreign exchange also made new progress.

The current problem is that the tendency of sliding economic returns has not basically changed, that the deficit expands and the state's financial difficulty increases, and that many economic relations have yet to be straightened out. But these problems have been adding up for a long time and cannot be completely solved by the three-year rectification and improvement. As we look back now, we find that the rectification and improvement was not only a wise decision which maintained a stable economic development, but also a basis for maintaining social stability. We may say that suppose the nationwide situation of panic buying and general anxiety in 1988 continued to develop, then, in light of the complicated situation at home and abroad in the past two years, our country's economy could not have been stable, and the social and political situation could not have been stable. The current political, economic, and

social stability in our country is inseparable from the reform and opening up of the past 10-odd years, from the great achievements in economic construction, and from the marked improvement of people's standard of living. It is also inseparable from the prompt and decisive rectification and improvement. Judging from the current situation, the duty of rectification and improvement has been basically fulfilled. In fact, the austerity policy aimed at checking inflation has been under adjustment since last year. Therefore, as a special phase of economic development, rectification and improvement can stop at the end of this year according to the original plan. Of course, in the period of rectification and improvement, some duties such as adjustment of industrial structure could only achieve limited goals and more efforts must be made in the future. The increase in deficit, the danger of an over-heated economy, and the pressure of inflation are the problems which we must solve as we continue our economic development.

## II.

In the second half of the 1980's, the world situation changed rapidly. In this period, our country's reform and opening up made world-renowned achievements and economic construction reached a new developmental stage. What is the reason? This is a problem which merits careful thinking. A summing up of the experience in the 1980's is not only of significance for understanding the past, but also of significance for continuing the reform, opening up, and socialist modernization construction in the 1990's.

Our country made great economic achievements in the 1980's and the first reason is that since the Third Plenary Session of the 11th CPC Central Committee, we shifted the whole country's central task to economic construction and the senior and lower levels in the whole country concentrated their efforts on economic construction. This provided us with a necessary social precondition to carry out reform, opening up, and economic construction. In the past, we deviated from the track of economic construction as the center and the whole party and the people in the whole country have learned a lesson from the great losses. Without "taking economic construction as the center," we would not have been able to make such great achievements in the 1980's.

The second reason is because we have practiced large-scale reform and opening up since the Third Plenary Session of the 11th CPC Central Committee. China in the 1980's was marked by reform and opening up. Our reform developed from villages to cities, to the scientific and technological front, to the educational front, and to other fronts. Through reform and opening up, our various management systems underwent great changes, injecting new vigor into economic development. The practice of opening up to the outside world has played the role of catalyst in promoting economic development. Had it not been for the opening up, broadening of perspective, and import of technology, our adjustment of industrial structure could not have moved that fast and

our goods would not have been able to enter the international market at such great speed and in quantity.

What makes our country's reform a success? One point of view which is popular at home and abroad is that China's economic restructuring has made great achievements because China first carried out economic restructuring, then political restructuring. This point of view sounds reasonable superficially, but it does not touch the essence of the problem. In my opinion, the success of China's economic restructuring can be attributed to the following reasons.

First, China's economic restructuring has been carried out on the premise of maintaining political stability, that is, it has been carried out on the premise of upholding party leadership and the basic socialist system. This has provided economic restructuring with a stable social environment and guaranteed the socialist direction of the restructuring. Our reform is a self-perfection and development of the socialist system and reform and opening up is socialist reform and opening up for the purpose of promoting the development of productive forces and overall advancement of the society, and of continually enhancing the vitality and stamina of the socialist system. We cannot do without reform and opening up, reform and opening up cannot do without upholding socialist direction. This is the conclusion reached by the CPC and the Chinese people when they look at the achievements and mistakes in the practice of reform and opening up in the past 13 years. The changes in the international situation have deepened our understanding. To uphold socialist direction is to uphold the four cardinal principles. The socialist reform and opening up is linked to the four cardinal principles and they are mutually dependent, both are combined in the concrete practice of building socialism with Chinese characteristics. Our achievements in reform and opening up have been made on the premise of upholding the four cardinal principles; they are the success of the four cardinal principles, and have enriched the contents of the four cardinal principles. In the beginning of the reform and opening up, the CPC Central Committee and Comrade Deng Xiaoping explicitly raised the question of upholding the four cardinal principles and for more than 10 years they often stressed the struggle against bourgeois liberalization and emphasized the basic line of "one center, two basic points." This indicates that the CPC is mature in terms of theory and politics. As we look back now, we realize more the great and profound meaning of this. In the 1990's, when we continue to deepen the reform under the complicated conditions at home and abroad, we must pay adequate attention to this basic experience.

Second, China's economic restructuring has been carried out on the premise of scientifically summing up the lessons and experiences of history, of fully affirming the results and of seriously correcting mistakes. This enables economic restructuring to develop actively on the one hand and steadily on the other, avoiding the move from one pole to another. In fact, in a period of 30 years after

the nation's founding, although serious mistakes did occur, we nevertheless won the great victory in socialist revolution and construction. The economic structure at that moment was an outcome of the then socioeconomic and historical conditions, which played an active role in our country's social and economic development. The reform is completely necessary and to illustrate this point, it is necessary to criticize the shortcomings of the past, and correct the mistakes of the past. However, this kind of criticism should be pragmatic and appropriate. If everything is negated and history is wiped away with one stroke and if the past several decades are described as completely useless, then it will become a "correction" of socialism, and we will embark upon the wrong road of negating party leadership and the socialist system. At the beginning of reform and opening up, the "Decisions on Several Historical Problems of the Party Since the Nation's Founding," which was passed by the Sixth Plenary Session of the 11th CPC Central Committee in 1981, pointed out the shortcomings and mistakes and, at the same time, affirmed the achievements made in the 32 years since the nation's founding, and the historical status of Mao Zedong and the banner of Mao Zedong Thought. Thus, it unified people's thinking. We can perceive more clearly its importance now than in the past. If we had not done this, economic restructuring would not have been able to develop healthily and score results.

Third, economic restructuring in China has developed in an orderly manner on the premise of ceaselessly summing up experiences in practice; that is, it is a gradual progressive process. An economic system is a complicated system, and the whole socioeconomic system is a more complicated big system with multi-faceted relations, and none is isolated. In China, under the objective conditions at the current stage, only when we can consider and properly take of the interests of various sides, can reform develop steadily and not cause big social disturbance. Reform measures should take into consideration the endurance of the state, enterprises, the people, and various sides. Our economic restructuring first started in the rural areas. The establishment of the system of contract responsibilities on the household basis with remuneration linked to output, and of township authorities, naturally ended the rural commune system which had been practiced for more than 20 years. This is a big change in the economic system on the one hand, and a big change in the political system on the other hand. Such a profound social change has caused almost no disturbances, and that must be regarded as a great success. This also illustrates the CPC's tremendous leadership skill in guiding the reform. The urban reform, which was stimulated and encouraged by the success of rural reform, has also developed step by step. Big differences between different localities are allowed to exist. This kind of gradual progressive reform has avoided big disturbances in society, it has avoided the destruction of social productive forces, and it has guaranteed a stable growth of production. The increase in production and



the improvement of the people's standard of living laid a foundation for continuous deepening of reform.

Fourth, China's economic restructuring has been carried out guided by the main principle of building socialism with Chinese characteristics. To build socialism with Chinese characteristics is to build socialism proceeding from China's situation and to build socialism which is suited to China's situation. Socialism with Chinese characteristics must first be socialism, which has the common nature of socialist systems, and that nature distinguishes it from the capitalist and other social systems, to have Chinese characteristics is to refer to the special features of China's socialist system, and those features distinguish it from other socialist countries. Resolutely staying on the road of building socialism with Chinese characteristics can enable us to avoid the rightist mistakes—abandoning socialism, and to avoid the "leftist" mistakes—ignoring China's situation. This is an innovative application and development of the pragmatic ideological line in the course of reform, opening up, and modernization construction. Undoubtedly, in the course of reform, opening up, and modernization construction, we must learn from every good experience of every country and nation in the world and we should never close our door and stick to the old rules. However, because China is a big country with a backward economy and unbalanced development, and because it has long historical and cultural traditions and have followed a unique road of development which is different from other countries, China's economic construction and economic restructuring cannot transplant the methods from other countries without any slight alteration, it must proceed from the country's own situation and explore ways during practice. As for the experiences from other countries, we can only choose the best and borrow them as examples. Thus, we can maintain the independence and self-determination of our economic restructuring. This is an important guarantee that the reform will be a success.

After the practice in the 1980's, the CPC Central Committee summarized the basic theory and practice of socialism with Chinese characteristics into 12 rules in the proposals of the Eighth Five-Year Plan and the 10-Year Program. This year, General Secretary Jiang Zemin's "1 July" speech further summarized brilliantly the basic points of the socialist economy, politics, and culture with Chinese characteristics. In the 1990's, guided by these basic thoughts, we must continue to build socialism with Chinese characteristics.

[18 Nov 91 pp 12-13]

[Article by Wang Mengkui (3769 1125 1145), deputy director of State Council's Research Department: "Current Economic Situation and Tasks of Economic Construction (Second and Last Part)"]

(Text)

III.

The social and economic development in our country must embody the need of building socialism with Chinese characteristics and realize an overall advancement of the society. Generally speaking, the goal of economic development in the next 10 years is to develop from having adequate food and clothing to a relatively well-off standard of living. The solving of the problem of food and clothing signifies that our country's economic construction has already passed through an important developmental stage. The upgrading from adequate food and clothing to a relatively well-off standard of living is a more important developmental stage. Since the Third Plenary Session of the 11th CPC Central Committee, the goal of struggle to be realized by the end of this century has changed from attaining the four modernizations to attaining a relatively well-off standard of living and this is a turning point which has a great significance for the economic development strategy in our country. In the past, we made mistakes more than once in seeking instant results and one of the important reasons was that we lacked a sober understanding of the difficulty and long-term nature in realizing the modernization of a big country with backward economic development such as ours, and that we wished to realize modernization in a short period of time. Practice proves that this is unrealistic.

We are to realize a relatively well-off standard of living by the end of this century. This means that in our economic development plan, we postpone the time for attaining modernization to half a century later—that is, by the middle of the next century. This arrangement is suited to the theory of the initial stage of socialism. This provides us with a firm ideological foundation for avoiding the mistake of seeking instant results in economic construction.

The issue of attaining a relatively well-off standard of living by the end of this century was raised in the early 1980's. Since then, many comrades have hoped to define what is a relatively well-off standard of living. That is not easy. First, our country is very big, and different localities differ in economic development, standard of living, and consumption habits, therefore it is very difficult to define a concrete standard of living which is applicable nationwide; and second, because technology evolves quickly there are many factors which cannot be precisely and easily predicted. However, to attain a relatively well-off standard of living, we must make the following points clear as our guiding thought.

First, the so-called relatively well-off standard of living means to further improve the quality of life on the basis of adequate food and clothing. This is the direction for improving the people's standard of living in the future. As for what are the substances of improvement of the quality of life, different places and times have different needs. For example, finding houses for staff is now a big difficulty in many cities, therefore improvement of life quality means first solving the housing problem. Every place should look at its own actual situation, and solve the most urgent problem of daily life for its people.

Second, the so-called improvement of life quality does not confine itself to improvement of the material life such as food, clothing, housing, and transportation—it also includes enrichment of spiritual life. It therefore includes socialist civilization construction, development of scientific, technological, and education undertakings, advancement of social ethics and morality, and ideological and political education. This is the overall demand as we carry out modernization construction, as well as the wishes of the broad masses of people. Suppose the economy is developed and material life improved, but the spirit is empty and social habits are not good, then this is not the wish of the broad masses of people, nor the goal pursued by our communists who lead the people to engage in socialist modernization. Furthermore, if we do not have socialist spiritual civilization construction and enrichment of spiritual life, the next step of modernization construction will meet with big difficulties.

Third, based on the situation of the unbalanced economic development in China, we should raise different demands in terms of time and progress for attaining the relatively well-off standard of living. At present, our country's level of economic development can be roughly divided into three kinds of regions. The first kind is regions which are quite economically developed and which are now close to or have already achieved a relatively well-off standard of living. In these regions, economic development and the people's standard of living will reach a higher level in the next 10 years, and will not be confined to attaining a relatively well-off standard of living. The second kind is regions which have solved the problem of adequate food and clothing, and these regions occupy an absolute majority of the parts of the country; some of these regions have barely solved the problem of adequate food and clothing and do not have a consolidated basis. Therefore, in the future, on the basis of consolidating and improving the ability to provide adequate food and clothing, they have to generally attain a relatively well-off standard of living. The third kind is regions which have not solved the problem of adequate food and clothing and there are 30 million to 40 million people in these regions, where the greatest efforts must be made to solve the problem of food and clothing in the Eighth Five-Year Plan period. As far as the whole country is concerned, achieving a relatively well-off standard of living by the year 2000 should be regarded as a general situation, and we do not exclude the possibility that a small number of localities will reach a higher level of development, nor the possibility that a small number of localities cannot achieve a relatively well-off standard of living. Since ours is a big country with very unbalanced economic development, that is a normal situation.

#### IV.

As we develop our economy in the next 10 years, we must focus on three major topics: maintaining a balance between total demand and total supply, adjusting economic structure, and improving economic returns.

A balance between total demand and total supply is the basic balance between social demand and social supply, that is, the comprehensive balance between financial income and expenditure, between credit income and expenditure, between demand of materials and supply of materials, and between foreign exchange income and foreign exchange expenditure which we often mentioned in the past. This is the basis for stable economic development. The inflation in the past few years was a result of the destruction of this kind of balance. So-called inflation means that a relatively large amount of currency is chasing after a relatively small quantity of goods in the market, causing a general price increase. At present, prices are stable, however, judging from the developing trend, the state is carrying out large-scale construction and needs a large amount of money, the population increases by more than 10 million each year and the improvement of the people's living standard also needs money. In the final analysis, the problem of money is a problem of materials. At present, the conflict between the need of money and the ability to raise funds is rather big and this conflict cannot be basically eased in the 1990's. Therefore, economic development must pay attention to comprehensive balance and uphold the principle of seeking development amid stability.

The adjustment of economic structure mainly refers to adjustment of industrial structure. In the past 10 years, we did score some results in structural adjustment, and the most spectacular were: An increase in the output of agricultural and sideline products enabled supplies to urban and rural areas to greatly increase, and the steady development of the consumer goods industry greatly changed the market. At present, the most spectacular problems are: The agricultural basis is rather weak, development of basic industries and facilities is slow, the scale of the processing industry is too big while the standard is rather low, and tertiary industry cannot satisfy the need of economic development and of the people's daily life. In the future, adjustment of industrial structure must pay attention to the following problems.

The first thing to do is to strengthen agriculture. Our country's agricultural modernization has just started in some localities and has not started in many localities; agricultural production is still strongly restrained by natural conditions. The main difficulty in our country's agricultural modernization is that operations of scale cannot be easily formed under the condition of scarcity of land and a large number of people. Although in different years and places, some products experienced "selling difficulty," such as the difficulty in selling grain and the difficulty in selling pigs, this was only a partial and temporary phenomenon and to a large extent it was a problem of the circulation system, and it was caused by rough circulation. Judged overall, our country does not have abundant farm products.

Strengthening of the construction of basic industries and basic facilities is an important duty in the next 10 years. As for energy construction, we must actively explore oil fields in the West. The construction of basic facilities

should emphasize communications and transportation. To develop the commodity economy, one material precondition is development of communications and transportation. Without developed communications and transportation, it is impossible to have a developed commodity economy. When communications and transportation are developed, they can stimulate economic development as well as the development of other trades. When we read the history of economic development in the modern world, we find that the several breakthroughs in the means of communications and transportation have greatly stimulated the expansion of trade and economic development.

At present, the overall scale of the processing industry is too big and the standard is not high; it can satisfy low-level needs more than enough, but fails to satisfy high-level needs. The future principle is to reorganize, transform, and improve. By so doing, we can better satisfy the domestic and international markets.

Architecture will see great development in the next 10 years. On the one hand, it is required by economic construction, on the other hand, it is promoted by the construction of residential houses. In the future, the speed of development of tertiary industry will be higher than the speed of development of the whole economy. The more developed the economy in a country, the higher the proportion of its tertiary industry will be; our country's tertiary industry still has great potential for development.

We must stress improvement of economic returns when we develop our economy in the future. The future of our country's modernization depends on whether we can eventually change from the chase of output value and speed to the track of attaching importance to technological advancement and improvement of economic returns. Enterprises are the cells of the national economy and improvement of returns depends on improvement of enterprises, especially state-run large and medium enterprises. The state must improve macroeconomic management and straighten out relations in the economic system through the deepening of reform.

In the contemporary world, science and technology develop very rapidly and change with each passing day. To a large extent, international competition is economic competition, and to a large extent, economic competition is determined by science and technology. When we develop our economy in the future, we must put scientific and technological advancement in a salient position and this will bring about strong vitality and stamina to our country's economy. In order to promote scientific and technological advancement, we must develop the role of the market on the one hand, such as the practice of a patent system, rational flow of personnel, compensated transfer of technology, and so on, and in essence these are to develop the role of the market; on the other hand, we must utilize the strong point of our country's socialist system, concentrate manpower, financial strength, and materials to tackle some major scientific

and technological projects. In this area, we have had some successful experiences.

## V.

We should soberly perceive that in the 1990's, our country's national economic and social development will run into difficulties. It is not easy to strike a balance between total supply and total demand, to adjust economic structure, and to improve economic returns. Compared with the 1980's, it is now more difficult to continue to deepen economic restructuring. Since the nation's founding, we have basically solved the problem of food and clothing through 40 years of efforts; in the next 10 years we have to move from adequate food and clothing to a relatively well-off standard of living and the duty is even heavier. We must also consider population growth and the unemployment pressure. At present, the international situation is changing rapidly, and we must also consider the unfavorable and destabilizing factors in the international arena. However, our country has great potential for economic development and there are many favorable conditions and a great room to maneuver. I am optimistic about China's economic development in the 1990's for the following reasons:

- After 40 years of hard effort, our country has already established an independent and comparatively complete industrial system and laid a relatively solid foundation for modernization construction. Fully developing the role of the current enterprises, and reorganizing, transforming, and improving them will enable them to become an outstanding force.
- Our country has a large scientific and technological contingent and a team of skilled workers and there is no lack of talents; they will show their great creative power when they are properly organized and used.
- Economic restructuring has made gratifying progress, and the economic system has been gradually perfected, while the party and government have acquired more experience in guiding economic construction and economic reform. We have our own experience and lessons, and with the experience and lessons we learned from the Soviet Union and East Europe, we know what to avoid and how to better carry out reform and more brilliantly promote economic development.
- Rectification and improvement has scored marked results, inflation has been brought under control, and the macroeconomic environment has been improved. This will have a positive impact on future economic development.
- China has a big domestic market, which is unique in the world. So long as enterprises can strengthen internal management, change operational mechanism, and actively explore markets, they do not have to worry about lack of development.
- China's political and social situations are stable. People's desire for stability is a very important social condition for carrying out reform, opening up, and modernization construction.
- The peaceful international environment, the practice of an open-door policy, and the return of Hong Kong



and Macao to the motherland, will provide our country with more opportunities for economic development. Amid the rapidly changing international situation, so long as we can make good judgment of the situation and do our work well, it is completely possible for us to continue to have a favorable external environment for reform, opening up, and modernization construction. Through economic development in the 1990's, China will become a strong economic power in the next century and many knowledgeable persons in the world are sure about this. Judged from experience over the past 10 years, so long as we can materialize a sustained, stable, and coordinated development of the national economy, and so long as we can maintain political stability and unity, we can certainly materialize the second-step strategic goal and enter the 21st century with more outstanding results.

### Part Two

HK1712020791 Beijing LIAOWANG in Chinese No. 46,  
18 Nov 91 pp 12-13

[Article by Wang Mengkui (3769 1125 1145), deputy director of the State Council's Research Department: "The Current Economic Situation and Tasks of Economic Construction (Part Two)"]

[Text]

### III.

The social and economic development in our country must embody the need of building socialism with Chinese characteristics and must advance society overall. Generally speaking, the goal of economic development in the next 10 years is to move from having merely adequate food and clothing to a relatively well-off standard of living. Solving the problem of food and clothing signifies that our country's economic construction has already passed an important developmental stage. Upgrading from merely adequate food and clothing to a relatively well-off standard of living represents a more important developmental stage. Since the Third Plenary Session of the 11th CPC Central Committee, the goal that our struggle is to achieve by the end of this century has changed from attaining the four modernizations to reaching a relatively well-off standard of living. This represents a turning point which has a great significance for our country's economic development strategy. In the past, there were several occasions when we made mistakes in our search for instant results. One important reason for this was that we lacked a sober understanding of the difficulty and long-term commitment involved in modernizing a big country with backward economic development such as ours, and that we wished to realize modernization in a short period of time. Practice proves that this is unrealistic.

We are planning to reach a relatively well-off standard of living by the end of this century. This means that our economic development plan postpones our deadline for attaining modernization by half a century—that is, by the middle of the next century. This arrangement is

suited to the theory of the initial stage of socialism. This provides us with a firm ideological foundation for avoiding the mistake in seeking instant results in economic construction.

The issue of attaining a relatively well-off standard of living by the end of this century was raised in the early 1980's. Since then, many comrades have hoped to define the notion of a relatively well-off standard of living, and this effort has not been easy. First, our country is very large, and different localities differ in economic development, standard of living, and consumption habits; therefore it is very difficult to define a concrete standard of living which can be applicable nationwide, and, second, because technology evolves quickly, there are many factors which cannot be precisely and easily predicted. To reach a relatively well-off standard of living, however, we must clarify the following guidelines:

First, reaching the so-called relatively well-off standard of living means going beyond the premise of having adequate food and clothing to further improve the quality of life. This is the way to improve the people's standard of living in the future. As for the substance of improving the quality of life, different places and times have different needs. For example, finding houses for staff is now a major difficulty in many cities, therefore improving the overall quality of life means first solving the housing problem. Every place should look at its own actual situation, and solve the most urgent problem of daily life for its people.

Second, the so-called effort to improve the quality of life does not limit itself to improving the material element of life, such as food, clothing, housing, and transportation—it also involves enriching the spiritual aspects of life. It therefore includes construction of socialist civilization, development of scientific, technological, and education undertakings, advancement of social ethics and morality, and ideological and political education. This is the overall demand as we carry out modernization construction and is the wish of the broad masses of people. If the economy has been developed and material life has been improved but the spirit has been left empty and social habits are not good, it would be neither the wish of the broad masses of people nor the goal pursued by our communists who lead the people to pursue socialist modernization. Furthermore, if we do not have socialist spiritual civilization construction and enrichment of spiritual life, the next step of modernization construction will run into major difficulties.

Third, based on the unbalanced economic development in China, we should raise different demands in terms of time and progress for attaining the relatively well-off standard of living. At present, our country's level of economic development can be roughly divided into three kinds of regions: First, the regions which are quite economically developed and which are now close to or have already achieved a relatively well-off standard of living; in these regions, economic development and people's standard of living will reach a higher level over

the next 10 years and will not limit themselves to attaining a relatively well-off standard of living. Second are the regions which have solved the problem of adequate food and clothing; these regions occupy an absolute majority of the country. Some of these regions have barely solved the problem of adequate food and clothing and do not have a consolidated base, therefore—on the premise of consolidating and improving the ability to provide adequate food and clothing—in the future their general task will be to attain a relatively well-off standard of living. Third are the regions which have not solved the problem of adequate food and clothing; there are 30 million to 40 million people in these regions, where the greatest efforts must be made to solve the problem of food and clothing during the Eighth Five-Year Plan. As far as the whole country is concerned, achieving a relatively well-off standard of living by the year 2000 should be regarded as a general goal, and we do not exclude the possibility that a small number of localities will reach a higher level of development, nor the possibility that a small number of localities cannot achieve a relatively well-off standard of living. Because we live in a large country that has very unbalanced economic development, that is the normal situation.

#### IV.

As we develop our economy over the next 10 years, we must focus on three major topics: maintaining a balance between total demand and total supply, adjusting economic structure, and improving economic returns.

A balance between total demand and total supply represents the basic balance between social demand and social supply, that is, the comprehensive balance between financial income and expenditure, between credit income and expenditure, between demand of materials and supply of materials, and between foreign exchange income and foreign exchange expenditure which we often mentioned in the past. This is the basis for stable economic development. The inflation of the past few years was a result of the destruction of this kind of balance. So-called inflation means that a relatively large amount of currency is chasing after a relatively small quantity of goods on the market, resulting in a general price increase. Prices are currently stable, however, and, judging from the developing trend, the state is carrying out large-scale construction and needs a substantial sum of money; the population is increasing by more than 10 million each year, and money is also needed to support the effort to improve the people's standard of living. In the final analysis, the problem of money is a problem of materials. At present, the conflict between the need of money and the ability to raise funds is rather large, and this conflict cannot be basically eased in the 1990's. Therefore, economic development must pay attention to comprehensive balance and uphold the principle of seeking development amid stability.

The adjustment of economic structure mainly refers to changes in the industrial structure. In the past 10 years, we did achieve some results in structural adjustment,

and the most spectacular were: increase in the output of agricultural and sideline products enabled the supplies to urban and rural areas to greatly increase, and the steady development of consumer goods industry greatly changed the market. At present, the most pernicious problems are: The agricultural basis is rather weak, the development of basic industries and facilities is slow, the scale of the processing industry is too large while its standards are rather low, and tertiary industry cannot satisfy the needs of economic development and the people's daily life. In the future, adjustment of industrial structure must pay attention to the following problems.

Our first effort must focus on strengthening agriculture. Our country's agricultural modernization has only just begun in some localities and has not started in many others; agricultural production is still strongly restrained by natural conditions. The main difficulty in our country's agricultural modernization is that operations of scale cannot be easily formed under the conditions of scarce land and many people. Although in different years and places, some products experienced "selling difficulty," such as the difficulty in selling grain and the difficulty in selling pigs, this was only a partial and temporary phenomenon and, to a large extent, it was a problem of the circulatory system, and it was caused by rough circulation. Overall, our country does not have abundant farm products.

Strengthening the construction of basic industries and basic facilities is an important duty for the next 10 years. As for energy construction, we must actively explore oil fields in the West. The construction of basic facilities should emphasize communications and transportation. To develop the commodity economy, one material precondition is development of communications and transportation. Without developed communications and transportation, it is impossible to have a developed commodity economy. When communications and transportation are developed, they can stimulate economic development as well as the development of other trades. When we read the history of economic development in the modern world, we find that the several breakthroughs in the means of communications and transportation have greatly stimulated the expansion of trade and economic development.

At present, the overall scale of the processing industry is too big and the standard is not high; it can satisfy low-level need more than enough, but it fails to satisfy high-level need. The future principle is to reorganize, transform, and improve. By so doing, we can better satisfy the domestic and international markets.

Architecture will see great development in the next 10 years. On the one hand, it is required by economic construction; on the other, it is promoted by the construction of residential houses. In the future, tertiary industry will be developed at a faster rate than the rest of the economy. The more developed a country's economy,

the higher proportion of tertiary industry it will have, our country's tertiary industry still has great potential for development.

We must stress the improvement of economic returns as we develop our economy in the future. The future of our country's modernization depends on whether we can eventually move the pursuit of output value and speed onto the track of attaching importance to technological advancement and the improvement of economic returns. Enterprises are the cells of national economy, and improvement of returns depends on improvement of enterprises, especially state-run large and medium enterprises. The state must improve macroeconomic management as well as straighten out relations in the economic system through the deepening of reform.

In the contemporary world, science and technology develop very rapidly and change with each passing day. To a large extent, international competition is economic competition, and, to a large extent, economic competition is determined by science and technology. As we develop our economy in the future, we must put scientific and technological advancement in a salient position, an effort which will bring about strong vitality and stamina to our country's economy. In order to promote scientific and technological advancement, we must develop the role of the market on the one hand—the patent system, rational flow of personnel, compensated transfer of technique, and so on—using these to develop the role of market; on the other hand, we must utilize the strong point of our country's socialist system, concentrate manpower, financial strength and materials to tackle some major scientific and technological projects. In this area, we have had some successful experience.

V.

We should soberly perceive that, in the 1990's, our country's national economic and social development will run into difficulties. It is not easy to find a balance between total supply and total demand, to adjust economic structure, and to improve economic returns. Compared with the 1980's, it is now more difficult to continue to deepen economic restructuring. Since the nation's founding, we have basically solved the problem of food and clothing through 40 years of efforts; in the next 10 years we have to move from adequate food and clothing to a relatively well-off standard of living, and the duty is even heavier. We must also consider population growth and the unemployment pressure. The international situation is changing rapidly, and we must consider the unfavorable and destabilizing factors in the international arena. Our country has great potential for economic development, however, and there are many favorable conditions and a great deal of room to maneuver. I am optimistic about China's economic development in the 1990's for the following reasons:

—After 40 years of diligent efforts, our country has already established an independent and comparatively complete industrial system and has laid a relatively

solid foundation for modernization construction. Fully developing the role of the current enterprises and reorganizing, transforming and improving them will enable them to become an outstanding force.

—Our country has a large scientific and technological contingent and a team of skilled workers—there is no lack of talent, and they will show their great creative power when they have been properly organized and used.

—Economic restructuring has made gratifying progress, and the economic system has been gradually perfected, while the party and government have acquired more experience in guiding economic construction and economic reform. We have had our own experience and lessons, and we have learned from the Soviet Union and East Europe, we know what to avoid and how to better carry out the reform and more brilliantly promote economic development.

—Rectification and improvement has achieved marked results; inflation has been brought under control, and the macroeconomic environment has been improved. This will have a positive impact on future economic development.

—China has a large domestic market which is unique in the world. As long as enterprises can strengthen their internal management, change the operating mechanism, and actively explore the market, they will not have to worry about a lack of development.

—China's political and social situations are stable. The people's desire for stability is a very important social condition for carrying out reform, opening up, and modernization construction.

—The peaceful international environment, the open-door policy, and the return of Hong Kong and Macao to the motherland will all give our country more opportunities for economic development. Amid the rapidly changing international situation, as long as we can make good judgment of the situation and do our work well, it is completely possible for us to continue to have a favorable external environment for reform, opening up, and modernization construction. Through economic development in the 1990's, China will become a strong economic power in the next century, and many knowledgeable persons in the world are sure about this. Judged from the experience of the past 10 years, as long as we can bring about a sustained, stable, and coordinated development of the national economy, and as long as we can maintain political stability and unity, we can certainly materialize the second-step strategic goal and enter the 21st century with more outstanding results.



### Analysis of Overall Economic Situation

92C00034 Hong Kong CHING CHI TAO PAO  
(ECONOMIC REPORTER) in Chinese No 39, 1 Oct 91  
pp 12-14

[Article by Chang Wu (1728 0124): "A Comprehensive Analysis of China's Current Economic Reform Situation"]

[Text] **Editor's note:** This article from Beijing is a rather comprehensive and thorough analysis of China's current economic reform situation. The article points out that, although the pace of reform is quickening, deep-seated problems remain to be resolved and a number of factors obstruct progress in reform and increased enterprise activity has become the key link in the current reform. Much new information conveyed by the article merits serious consideration. **End editor's note.**

This year, while further implementing the policy of improvement and rectification, new progress has been made in economic development and economic reform, the national economy has been freed from the production slide and weakened market, and the economy has continued to develop well. This creates favorable conditions giving impetus to intensified economic reform and helping the national economy to essentially overcome its difficulties.

### The Pace of Economic Reform Is Quickening

As regards reform of the economic system, since the Chinese Communists held the Seventh Plenary Session of the 13th Central Committee at the end of last year, reform appears to have begun to heat up. At the beginning of this year, the State Council also held a national working conference on reform of the economic system and by medium- and long-term reform plans and continually promoting some measured reforms brought about a gradual quickening in the pace of reform. In the past six months or more, the main progress in reform has been in

- Essentially completing the second round of state enterprise contracts and further perfecting and developing the enterprise contract system.
- Some of the eleven measures formulated by the State Council and being implemented by all regions and departments geared to improving the external circumstances and perfecting the internal mechanisms of large- and medium-sized state enterprise and increasing their vitality have begun to produce results.
- Price reform has made rather great strides, especially in seizing the favorable opportunity when the economy is rather well-off to make a major adjustment in the parity selling prices of grain and oils that had not moved in 25 years and in not causing citizen alarm or major market fluctuations in the adjustment. This also received a good reaction internationally. At the same time, price adjustments were carried out in

many areas such as petroleum, steel, coal, and communications and transportation, further reducing planned and unplanned price differentials and some products smoothly accomplished the switch from two-track pricing to market pricing. Price reform should be considered an important success in this year's reform.

- Further adjusting the interest rates on savings and loans and the exchange rate. On the basis of four adjustments in the interest rates on savings and loans in the previous two years, this year the interest rates on savings and loans were again adjusted down essentially returning them to 1988 levels before the serious inflationary explosion. Regarding the renminbi exchange rate, also after two adjustments, numerous minor adjustments were conducted, which greatly reduced the differential between the official exchange price and the market exchange price. The present differential is only approximately 8 percent. At the same time, there also were reforms in the manner of issuing treasury bills and a securities exchange was developed.
- A new system of responsibility for one's own profits and losses was implemented in foreign trade exports. This is a major reform in the foreign trade system and helps to reduce treasury subsidies and create an atmosphere of equitable competition. At the same time, adjustments were made in the proportion of foreign exchange to be retained and the autonomy of regional and enterprise foreign trade was expanded.
- Reform of the social services system and the housing system became an important agenda. The scope of these two reforms has continuously expanded and the National Housing Reform Working Conference set for October will further promote reform of the housing system.
- New progress also has been made in reform of the treasury and tax collection systems and the circulation system and an experimental system to divide taxes and services is being implemented in some provinces and municipalities.

**Deep-seated Problems in the Economy Still Have Not Been Resolved** Generally speaking, the economic development and economic reform situation is good, but we have to recognize that the national economy still is not really out of difficulty. A great many state enterprises still are facing very serious difficulties so that deep-seated contradictions such as low economic performance and an irrational structure still exist.

Regarding the economic system, with little progress in continuing to explore the establishment and improvement of economic operating mechanisms combining the planned economy with market adjustments, the macro-economic control system and enterprise management mechanisms have not clearly changed. This is particularly reflected in a general lack of vitality and difficulty for large and medium-sized state enterprises. We must say that the reasons for large- and medium-sized state

enterprises' lacking vitality are many and varied. For example, an extremely important reason is that enterprises strongly reflect the fact that they are overburdened. According to surveys by the parties concerned of 143 enterprises in 14 provinces and municipalities, there presently are more than 60 different enterprise tax fees so that actual profits retained by enterprises have continually declined and their vitality is seriously weakened. But, as regards deep-seated problems, the more important causes still are in the economic control system and enterprise management mechanism aspects.

1) Excessive administrative interference and not practicing enterprise autonomy. In the past two years, administrative control has been increased to a certain extent and some authority that had been conferred on enterprises has been taken back by the state and the control of some enterprises that had been delegated to local authorities has been taken back. These things all have had an effect on the enthusiasm of enterprises and localities. In recent years the "u-mi-ke" (2448 4717 0344) phenomenon has received widespread emphasis and has directly shown that after enterprises have been freed from administrative interference and been given full autonomy for production and management, they can rapidly change mechanisms, regain their vitality, and improve their performance.

2) Too much mandatory planning makes it difficult for large- and medium-sized state enterprises to cater to the market. Quite a few mandatory planning quotas are seriously divorced from market demands, causing a very serious predicament for regions and enterprises that have a large share of mandatory planning and have no way of pegging production to sales and adapting to actual market demands and creating serious overstocking of products. Economic performance becomes increasingly lower, not to mention vitality and vigor.

3) The pricing system is irrational, comparative price relations are distorted, and the price control system is inflexible. This seriously limits market mechanisms' ability to promote rational allocation of resources and improve performance. And there is no way for the real performance of enterprise production and management activities to be truly reflected, dampening the enthusiasm of the enterprises.

4) The situation of enterprises eating from the state's "big pot" still has not been turned around and the dependent ideology of "waiting, relying, and demanding" from the state still remains serious, weakening the enterprises' concepts of efficiency and competition and causing them to lack pressure and motivation to restructure and develop.

5) In regard to income distribution, because of the affect of retrenchment policies and the need to maintain social stability, direct control measures have increased and egalitarianism has grown somewhat. At the same time, inequitable social distribution is still serious between different regions, different departments, different sectors

of the economy, and different professions. This egalitarian income distribution and disparity of income levels dampens the enthusiasm of enterprises and workers in two different respects.

Precisely because of the deep-seated problems in the control system and management mechanisms mentioned above, although in recent years the state has greatly increased its investment in state enterprises, enterprise output has increased very little and performance has clearly declined. According to statistics, in the first half of this year, total investment in enterprises under the ownership of the whole people had a rather great increase, investment in productive capital construction and updating of technology came to 63.8 billion yuan, an increase of 24.5 percent and 16.9 percent, respectively, over the same period last year. Banks allocated an increase of 5 billion yuan in technology update loans, increased enterprise depreciation funds by 3.6 billion yuan, and supplemented some of the enterprises' own circulating funds and increased new product development funds. But, in the budget for the same period, the output value of industries and enterprises under the ownership of the whole people grew by 9.9 percent and the profit realized declined by 17.5 percent. From this it can be seen that simply relying on increased investment in enterprises and not changing the enterprises' operating mechanisms cannot truly enliven enterprises and improve performance. On the contrary, if we blindly adopt the methods of relaxing the overall volume and expanding credit to help to enliven enterprises, not only will it be difficult to attain the anticipated goals, but we also risk inciting inflation.

### It Is Difficult To Make a Breakthrough in Major Reforms

Presently China is in the process of changing from the old economic system to a new economic system. Although a great deal of change has occurred in the economic system, the former system's defect of not delegating responsibility to lower governments, enterprises, and trades remains essentially unchanged and major substantial progress has not been made in reforming enterprise mechanisms and state enterprises, especially large- and medium-sized enterprises, still cannot exercise full operational autonomy and cannot take responsibility for their own profits and losses, and lack the capability for self-development and the mechanisms to restrain themselves. There is a lack of competition and cooperation among enterprises and survival of the fittest cannot be realized and productive elements cannot be properly circulated and favorably constituted.

Thus, it is difficult to make a major breakthrough in the present economic system, especially in reforming enterprise mechanisms, because of a number of social, economic, and ideological factors. These are manifested in:

1) The ideological issue. In the past two years, we criticized the former inclination toward a soft method (upholding the four cardinal principles) and a hard method (reforming and opening up), and recently, we

have repeatedly emphasized the necessity of persisting in the socialist orientation of reform and opposing bourgeois liberalism and guarding against foreign powers' using reform and opening up to carry out "peaceful evolution." At the same time, the dramatic changes in the Soviet Union and East European countries often produce certain doubts in people's minds so that they dare not boldly promote reform and opening up. People often cannot clearly distinguish between the authentic concept of reform and opening up and the mistaken concept of reform and opening up.

2) The issue of improvement and rectification. In the past two years and more, in carrying out improvement and rectification, to enhance macroeconomic controls and overcome overheating of the economy, we stressed that power should be appropriately concentrate with the central authorities and actually took back some of the powers that had been delegated to localities and enterprises, and administrative methods were also increased in some respects. This inhibited economic reforms to a certain extent. An end has not now been called to improvement and rectification and some delayed reactions to improvement and rectification could remain for a period of time. This no doubt will have a certain affect on people's thinking as we promote and intensify reform.

3) The issue of social tolerance. Major reform of the economic system, especially enterprise mechanisms, is restricted by social tolerance. If enterprises are given autonomy in employment, then enterprises should be permitted to reduce or dismiss the staff based on operational conditions and staff performance. This requires placing the staff that has been reduced or dismissed. And if, in adjusting the structure of the enterprise, the enterprise goes bankrupt, it can bring about a series of problems regarding property, creditors, handling of debts, and disposition of the staff. These all are closely related to social stability. So, this inevitably requires checks on the extent and the force of reform and limits it to not seriously disrupting social stability.

4) The issue of regulating various powers. Reforming the economic system formerly just meant thoroughly regulating economic benefits. Now the more intense reform becomes the more it touches on all beneficial relations. If enterprise autonomy is to be implemented, mandatory planning must be reduced or eliminated and indirect control must be practiced by government departments and a unified national market must be developed. This all touches on the authority of departments and localities. These major reform measures also often demand that people pay a corresponding price. For example, reforming the housing system, which is important for lightening the burden of enterprises, demands an increased expenditure of residents in this regard, especially greatly increasing the burden on the people who have various powers related to the segment of housing that is above standards. All these can obstruct intensification of reform to different extents and make these major reform measures difficult to implement. And,

even if they are implemented, they often are made to just go through the motions and have difficulty reaching the mark.

Generally, the present situation is that, on the one hand, the objective economic situation is improving and inciting demand to quicken the pace of reform and through intensified reform to resolve the deep-seated contradictions and create the conditions for enlivening enterprises, especially large- and medium-sized state enterprises, so that the national economy can essentially get out of trouble and enter a good cycle. On the other hand, there still are a number of factors restricting and interfering with the progress of reform and making it difficult to obtain a breakthrough in some major reforms. In this contradictory situation, it is necessary to evaluate the situation at hand and grasp the opportunity to actively and deliberately advance reforms.

#### Promote Overall Reform Focused on Increased Enterprise Vitality

Increasing the vitality of enterprises, especially large- and medium-sized state enterprises, is central to reform of the entire economic system. Large- and medium-sized state enterprises form the economic basis for the socialist system and also are an important source of strength for the national economy. Only when large- and medium-sized state enterprises are enlivened and run well can the nation's financial resources be tapped and the nation's economic strength increased, so that the entire national economy can come to life.

Enlivening large- and medium-sized state enterprises has now aroused a great deal of interest at every level throughout the nation. The lesson from some East European nations also offers a negative example of the importance of this issue. Some East European communist leaders, in retrospect, have spoken of an important lesson in the industrial sphere they did not do a good job of resolving the issue of increasing the vitality of state owned enterprises. They think that with too much of the control over the means of production, and the production and distribution of products concentrated within the state, people did not feel that state property was also their property and they did not truly establish the concept of being the master of one's own affairs. So, they could not arouse the people's enthusiasm, initiative, and creativity, and the state ownership system did not manifest vitality nor bring into play the superiority of socialism. These reflections reveal some substantial aspects of this issue and have had an influence on Chinese decisionmakers.

We could list a great many measures to improve large- and medium-sized state enterprises, but the essential means is to uphold the goal of enterprise reform, that is upholding the principle of separation of government, enterprise, and staff responsibilities and appropriately separating ownership from management authority and, through intensified reform, set enterprises on the road to



self-management, responsibility for their own profits and losses, and self-development and self-restraint.

To counter the crux of the present problem of the lack of vitality in large- and medium-sized state enterprises, future intensification of enterprise reform will need to pay attention to the following issues:

1. While continuing to strive to improve enterprise external economy and social environment, truly give a great deal of attention to changing enterprise mechanisms.
2. We should direct enterprises differently based on their different size and different characteristics.
3. We should change our concept that in enlivening enterprises we should enliven all enterprises. Some enterprises that have been losing for a long time and do not have a potential for growth should be weeded out in competition to improve the overall quality and performance of the social economy through closing down and merger.
4. Every type of enterprise reform and adjustment in the control system should not lead to increased direct planning and control over enterprises, but should truly move enterprises into the market and help enterprises to grow through competition.

In actual reform measures, we first should conscientiously implement the Enterprise Law and practice enterprise autonomy in production and management and reform the internal management mechanisms of enterprises and move enterprises into the market. At the same time, we should adjust the organization and structure of enterprises by such methods as selling off small enterprises, merging enterprises, and enterprise bankruptcy, and actively and soundly promote the growth of enterprise groups and continue such experiments as "separate channeling of taxes and profits" and the stock system.

In addition, while concentrating on the central task of increasing the vitality of large- and medium-sized state enterprises, we should conduct the following associated reforms: 1) Stress increased indirect control to encourage reform of the macroeconomic control system, including reform of planning controls, investment controls, and the treasury's tax collection system, reform the financial control system and improve the central bank's macroeconomic control function, reform the administrative control system and carry out the principle of the government mainly using indirect controls to control the economy and change the government's economic control functions. 2) Concentrate on intensifying reform of the commodity circulation system and actively and soundly promote price reform and intensify reform of the external trade system and promote the development of a unified national market. 3) Concentrate on resolving inequities in social distribution and promote overall reform of the labor wage, social service, and housing systems.

### Market Development: Current Status, Difficulties

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[Article by Qiao Gang (0829 0474), State Council Development Center. "Status of and Difficulties in the Development of Markets in China, and the Way Out of Them"]

### [Text] 1. Basic Assessment of the Status of Market Development in China

The most arresting change in China's economic life since the advent of reform is the growth of a market system and expansion of the regulatory role of markets. Since reform of China's economic system requires a shift from the traditional planned economy to a new planned commodity economy, this process of change itself means that the basic task is establishing and developing a socialist market system. It cannot be denied that many of the reforms undertaken over more than 10 years have been directed primarily toward efforts to build and develop a socialist market system.

With the beginning of rural reform, the contract responsibility system was actually a major reform and a redirection of the old method of organizing production. It also lay the initial foundation for the creation of markets as a new main entity in rural villages, thereby bringing about a change from farming by production teams to farming by individual households. In urban reform, the widening of enterprises' autonomy also created, in a certain sense, the requisite conditions for enterprises to become true principal market entities. Enterprises' production and business operations also increasingly changed from the former plan regulation to market regulation. It is generally conceded that more than 50 percent of total retail sales of social commodities are regulated by the market. An even more optimistic estimate is that the percentage should actually be between 60 and 70 percent. A substantial number of other reforms were also directed primarily toward efforts to build and develop a socialist market system. Examples include the reduction of plans on the command model and the removal of price restrictions, all of which widened the scope for market regulation to a certain extent. In the organization of all types of commodity markets as well, even while reforms were underway, development and improvement also occurred. Examples include primary level market mechanisms (such as country fair markets), and mechanisms having a certain amount of organization (such as wholesale markets), as well as mechanisms containing some futures trading element as well or, in other words, efforts in the direction of establishing futures markets (such as commodity exchanges). Expansion of the scale of market organization and enhancement of the role of the market mechanism also provided more space for the development of production and the entire economy. The vigor of economic life increased as a result of competition through

numerous channels, market supply through society improving a great deal in particular. The development of markets in China had extremely positive effects and benefits for every aspect of social and economic life. We must take this point fully into account.

In assessing the current status of market development, some comrades believe that our markets have turned into buyers' markets after having been sellers' markets for a long time. No longer is China an "economy of scarcity." I feel, however, that a more concrete analysis is required in judging whether a buyers' market has taken shape and whether the "economy of scarcity" has been eradicated. Theoretically speaking, the conditions needed for the formation of a buyers' market are as follows: First, market participants have to be under tough budget restraints; second, both parties to transactions must be able to compete freely and make free choices; and third, market supply and demand must be roughly balanced. Judged by these standards, one has to say that China's markets today have a very long way to go before they meet requirements for becoming buyers' markets. If one retreats a step, using supply and demand relationships and the character of residents' market behavior as the sole standards for making a judgment, buyers' markets can come into being with certain state policy readjustments. Only in this sense can one say that a buyers' market has truly come into being at this time. The term "economy of scarcity" carries a specific connotation, however. It is a conclusion reached following analysis of the traditional socialist economic system. Such an analysis shows the fatal weakness of the traditional socialist economic system to be the soft budget restraints on enterprises. The starvation for investment and the consumption inflation that this leads to creates market queues and shortages that produce the so-called "economy of scarcity." The basic cause of an "economy of scarcity"—soft budget restraints—has not been completely eradicated, however. The universal "responsibility for profits but no responsibility for losses" of enterprises is a classic demonstration of this point. The various conflicts and shortcomings in the operation of the country's economy that stem from this are also a long way from being thoroughly solved. Looked at from yet another angle, one major chronic illness in Chinese economic life is the very conspicuous structural imbalance. The serious lag and shortage of basic energy and transportation facilities is also obvious. If one says that, after several years of policy readjustments we now have a buyers' market to a certain extent, one cannot say that the "economy of scarcity" has been eliminated. Unless we understand the problem in this way, very possibly our conception of the urgency and necessity for further deepening reform may be diluted, and we may actually be unable to eradicate thoroughly the shortcomings of the traditional system from Chinese economic life.

While fully affirming the development of the Chinese market, we must also face squarely the problems that exist in this development. An overall assessment shows their expression in the following prominent ways: (1) No

standards. Not only has there been no separation of government administration and enterprise management in the organization of markets, but the action of markets as main elements is extremely chaotic. In setting up many market organizations, while defining the character of their enterprises, we frequently also endow them with specific administrative functions. A market organization in which there is no separation of government administration from enterprise management is bound to lead to market behavior that is extremely abnormal. Some government units not only use their administrative authority for large scale meddling with enterprises' market activities, but even enter the market directly, misusing their authority to engage in business. In addition, some enterprises have no choice but to act as higher authority commands, and they may even discharge such government functions as regulating the market. (2) Incompleteness. The serious lag in the development of some markets makes it difficult for market systems that have just taken shape to produce the overall results that they should produce. First, a mismatch exists between key element market and commodity market development. Development of all sorts of commodity markets seems markedly inadequate or seriously behind the times in comparison with the need for change in the overall economic operating mechanism. Second, in the development of various kinds of commodity markets, there is a marked degree of difference in the percentage that depend on plan management, for example, industrial consumer goods and industrial means of production. This state of affairs means that enterprises are regulated (administratively or by the market) to a different degree in both investment and output. Furthermore, this lack of coordination among regulatory mechanisms makes it difficult for the market mechanism to exercise its coordination function fully. (3) Lack of uniformity. Lack of uniformity stems mostly from the barriers between higher and lower echelons or between different departments and regions. This results in extremely serious administrative restrictions on firms or regions in the present growth of the country's markets, which leads in turn to a separation or an isolation of markets in different sectors and regions. This poses serious difficulties for the building of a unified market system in the country.

## 2. Problems and Conflicts That Insufficient Market Growth Poses at the Present Stage

The most important problems in China's economic life today are still the accumulation in enterprises' inventory of finished manufactures, payment arrears, and a tremendous decline in returns resulting from poor sales. Faced with these problems, some comrades believe that this is the result of our undue emphasis on market regulation, and that consequently we must now emphasize plan management, stressing the importance of plan management. They say that we should emphasize the importance of state-set prices in price management, particularly during restructuring of the two-track price system, espousing the need to take back some of the

organizations in the commodity circulation field that have been relinquished during the past several years, etc. If we further analyze the various difficulties and problems currently being faced, however, we will discover first, that the tremendous market fluctuations as well as the various difficulties in economic life of recent years are largely macroeconomic regulation and control problems, and not the fault of the market itself. Second, we will discover that we have not overemphasized market regulation, but that the market system is still very incomplete. The role of market regulation is held in check giving rise to distortions. This situation can be divided into the following aspects:

1. Enterprises have by no means truly become the main market element. Thanks to a series of stimulating actions that the government has taken, industrial output value has rallied considerably today; at the same time, however, the increase in the accumulation of finished goods in inventory is even greater. The direct reason behind these problems is the failure of enterprises to gauge their production genuinely in response to market demand. Instead, they set output levels according to the plan. The plan sets a certain output value and speed, and plan norms are based on production capacity. Consequently, despite the support that certain policies provide, although production speed increases, because no market exists, large amounts of goods are bound to accumulate in warehouses. In the commodity circulation field, commercial enterprises and materials enterprises also serve as storage batteries in accordance with government directives. The so-called storage batteries refer to large quantities of goods stored in warehouses, which are goods taken in that industries were unable to sell. Reportedly, some local governments have used the market slump as a pretext for requiring commercial units to purchase 70 percent of the goods of local industries that are in warehouses. Once these goods have been purchased, they cannot be sold, and this means that enterprises' funds cannot circulate. In addition, because commercial units own only a relatively low percentage of the funds they use, their interest payments and expenses have risen tremendously. The result is that more than 70 percent of commercial units' business commodity circulation expenses are tied up in interest. Consequently, the decline in returns is also difficult to avoid, it is feared. During the poor market situation, in particular, very much of our management work consists of stringent control of large- and medium- size enterprises. Faced with competition through many channels, the advantages that large- and medium-size enterprises possess cannot find expression.

2. A replenishment mechanism for the flow of key production elements has not been truly established. The serious accumulation of goods in inventory shows extremely prominent structural conflicts in the country's economic life. Basically speaking, however, solving these structural conflicts requires a replenishment mechanism for the flow of key production elements that is consistent with the principles of a commodity economy, i.e., the

present assets inventory must be adjusted as market demand changes. Guided by changes in market price signals, key production elements must flow from sectors in which they are in oversupply to sectors in which there is a shortage, the existing structure for the allocation of key production elements thereby being changed and redirected. The classic feature in the present allocation of key production elements is still distribution by administrative fiat for the most part, with key production elements allocated to different places and sectors on the basis of administrative subordination. Such a vertical administrative distribution control mechanism makes it very difficult for key production elements to move and replenish on the basis of market demand. Without the flow and replenishment of key production elements, the distorted structure cannot play a positive role. Consequently, the structural causes for the current worsening of economic returns can hardly be solved either.

3. The price mechanism has yet to be made rational. The most prominent problems today are a serious dislocation between administratively set prices and the requirements of the laws of value as well as changes in the relationship between market supply and demand, which have been manifested in the following ways. (1) Under the existing price system, prices in the basic industrial sector are still much too low. This means that these industries are unable to repay bank loans with interest, thus they lack reserve strength for development. This also creates all sorts of trade frictions between inland (resources-supplying) provinces and coastal (processing industry) provinces. (2) During the present merging of the tracks of the dual price system, price restraints on quite a few commodities must be removed in view of the market supply and demand situation; however, in actual practice, they are all merged into the state-set price. Since administratively set prices are seriously at variance with what they should be under the laws of market supply and demand, state-set prices of very many commodities such as knitwear, sugar, processed steel, and cement are higher than market prices. The result is that enterprises in the commodity circulation field cannot do business. One example is the market price of sugar, for which no ration coupons are required and the price of which is low. Inevitably state-owned businesses that purchase sugar at the state-set price cannot sell it, and this results in losses for the enterprises. Second, it shuts off normal commodity flow. Take grain prices for example. Because the state-set reserve price is higher than the market price, in addition to the limitations that government subsidies impose, state-owned enterprises that buy and sell grain cannot go all out in procurement. The result is that peasants have difficulty selling their grain, so some individual households buy grain from peasants at the market price; then they turn around and sell it through contacts to some state-owned commercial grain procurement units. In this way, the normal grain flow channels are cut off, while some abnormal channels get rich.



4. No rational market organization and market structure. While maintaining the existing form of market organization, the flow of commodities through multiple channels has taken place since reform. First of all, in order to meet changes in this market flow pattern, industries hurry to sell their own products, thereby incurring large expenses in the gathering of market information, and in seeking trading partners and negotiating with them. Thus, in market trading, we are actually paying twice—once under the new system and once under the old. This is also one of the main reasons for the sharp rise in enterprises' operating expenses in recent years. Second, because of the serious lag in the development of key production element markets, the ability of quite a few enterprises to control inputs and manage input prices is not matched by a similar ability to control outputs and manage output prices. Thus, when a rise in the cost of upstream products and a resultant rise in costs occurs, enterprises have to charge a higher price for their products, so they cannot do business. Third, administrative monopolies are still a fairly serious problem in the markets. The problem of market blockading is not one that has arisen only during the past couple of years in economic life. In trade between one region and another, mostly individual local governments exercise administrative authority, practicing a regional administrative monopoly in their administrative zone. In trade between one sector and another, the units in charge of some industries also apply all sorts of administrative measures that interfere with and control the procurement and marketing activities of enterprises in the industry or dealings in commodities that a sector controls. They may even abuse their authority to conduct business dealings themselves thereby operating an industrial administrative monopoly.

5. Lack of strict market regulations. One conspicuous expression of the lack of strict regulation in socio-economic life at the present time is payment arrears. Nowadays, not only is it profitable and sensible to owe debt, but some jurisdictions even reward it. The greater the amount of debt owed, the greater the reward. This is a very abnormal situation. Because of the lack of strict market regulation, arrears in debt payment have mounted to more than 200 billion yuan. This can create a series of problems and conflicts in the country's economic life.

### 3. Structural Impediments to the Development of China's Markets

1. Choice of an overall economic system framework and a basic operating mechanism. Strictly speaking, the market problem is a microeconomic issue. Nevertheless, in the process of changing from a traditional planned economic system to a planned commodity economic system, we are faced with the problem of being unable to avoid linking the plan with the market. As a result, the market problem is closely associated with the architecture of the operating framework of the economy as a whole. It becomes an integral part of the overall structure.

The economic thinking that has held a commanding position since World War II in the efforts of all countries of the world to develop their economies has been along just two lines as follows. The first has been to advocate *laissez faire* and to exercise the role of the "invisible hand" in accordance with the traditional dogma of Adam Smith, emphasizing market regulation. The other line proceeds from Marxist principles, emphasizing the role of plan management in total economic development. Naturally, a mingling of the two has occurred with economic development. Efforts have been made to meld the two lines of thinking, and a great deal of progress has been made in this respect. On the issue of how to meld the two, however—on how to deal with the relationship between plan and market—diametrically opposed explanations still exist. A very great difference in understanding exists not just theoretically but also about plan and market concepts *per se*. Since reform, pertinent Party and state plan and policy expressions have also undergone several changes. For example, they have gone from advocacy of a plan economy primarily with market regulation playing a supplementary role to emphasis on a smaller role for command-style plans, an expansion of guidance-style plans, and greater attention to the regulatory role of the market. They have also gone from explicitly proposing state regulation and control of markets, markets guiding enterprises, to a reiteration of a combination planned economy and market regulation.

We can see from the changes during the foregoing several stages that no fundamental understanding has yet been reached on this problem. One fairly popular explanation maintains that both plan regulation and market regulation constitute basic control mechanisms in the operation of the economy. Careful deliberation reveals that the logical conclusion of such an explanation is that there is a dual standard for evaluating resource allocation in the operation of an economy. Under certain circumstances, we can use the market as the standard for allocating resources, or we can use plan. It must be said that the basic coordination mechanisms in the operation of different societies and economies are not limited to administrative coordination or market coordination. Under specific socio-economic circumstances, however, there is always a basic mechanism for coordinating resource allocation. Unless we look at the problem in this way, using dual standards as a coordination mechanism and an evaluation standard for explaining the allocation of resources, disarray may occur in the standards and coordinating mechanisms used in economic life. This can result in a lack of uniform market standards and a lack of normal and regular market procedures, for example, were enterprises to operate on the basis of these dual standards, excessive direct government interference would hardly be unavoidable. The problem of a separation between government administration and enterprise operation could not be very readily resolved, and there would be no way to break free from unregulated government and enterprise behavior.

It must be said that a socialist planned commodity economy itself contains a rule, namely that, in the

allocation of resources, the market is the most fundamental coordinating mechanism. Plan regulation is founded on the building of markets to serve as the most fundamental coordinating mechanism. We say this regularly. Planning must likewise be founded on the laws of value. Several comrades have noted that many western countries are now emphasizing central planning. Actually, the western countries' control plan differs fundamentally from our traditional plan. This control plan emphasizes administrative intervention, but not administrative replacement. This is to say that this administrative intervention is founded on the complete operation of the market mechanism. Obviously, if we are to combine central planning with the market, we must thoroughly transform the traditional plan system, because, if we do not, this kind of combination will be impossible. This means that we must accommodate commodity economy operating requirements as we build an effective macroeconomic regulation and control system, the principal means being fiscal and monetary, and effect regulation through signals that market operation provides. It is on this basis that the plan determines the overall norms and the main proportional relationships for development of the economy. Then, an effective macroeconomic regulation and control system assures realization of economic plan norms and orderly market operation. Clearly, market growth holds an extremely important position and role in building an overall framework for operation of the economy. We must make some fairly clear-cut choices.

2. Fiscal contracting and enterprise contracting. Current fiscal contracting and enterprise contracting restricts or limits market growth at the present stage at the two levels and two links of a relationship between the central government and local governments, and a relationship between the state and enterprises. Fiscal contracting is an outgrowth of reform that plays a definite accelerating role in stirring local and departmental interest in the distribution of benefits. At the same time, however, the problems that this system occasions are also very pronounced, and numerous conflicts in economic life today also stem from it. For example, the efforts of individual jurisdictions to achieve balance in the industrial structure intensifies conflicts and imbalance in the overall economic structure. For society as a whole, it worsens the allocation of resources. This is also a major reason for the current deterioration of economic returns. This emphasis on parochial interests causes individual jurisdictions to employ their administrative strength to effect administrative monopolies and to blockade markets. During periods of intense competition, all sorts of trade wars occur in an effort to preempt resources. During slack periods, mutual blockading of markets occurs. Despite repeated central government injunctions to prohibit market blockading among jurisdictions, the results achieved in practice have been minuscule. Unless the fiscal contracting system is changed, current problems in the form of cut up and blockaded markets cannot be fundamentally solved.

Enterprise contracting also has a uniquely positive effect in practice. Its assumption of responsibility for income risk permits enterprise producers and managers to worry less about their own returns and worry more about results from enterprise operation. Nevertheless, one key problem in enterprise contracting is the lack of change in the administrative coordination operating mechanism. Under this system, the only burden enterprises bear is income risk, not property risk, thus the problem of the division of ownership rights has not been solved. This is also a fundamental reason why enterprises today find it difficult to extricate themselves from the difficulties they face in current contracting. It must be said that, were the property rights issue to be clarified, not only would enterprise management rest on an increase or decrease in earnings, but the expansion or contraction of the scale of operations would be decided on the basis of whether assets could be retained and their value increased. This would be the basis for choosing the orientation of production. Lacking such a premise, the efforts of enterprises will not work toward this end, but will rather be applied mostly to haggling over prices with the government. Only when this haggling succeeds can one's own troubles in enterprise administration and management be avoided and fairly ideal earnings gained. Therefore, as long as the property ownership question remains unclear and the problem of the basis for property ownership remains unresolved, enterprises will find it very difficult to develop into true main market entities. Very obviously, the most important structural reasons limiting market growth cannot be completely solved within the near future. We must understand and evaluate this situation as fully as possible.

#### 4. Better Market Organization Is the Main Task in Moving Ahead With Further Market Growth

Controversy has existed throughout reform, specifically about whether the ownership system should be the main focus or whether price reform and the building of a market system should be of primary importance. No agreement has been reached on this issue in the course of discussions. Two different lines of thought exist, one emphasizing enterprises and the other emphasizing prices, and some comrades also combine them as a double task. I feel that, if we are to regard reform as a piece of systems engineering rather than as separate and isolated reform measures, the ownership system, the enterprise system, price reform, and building of a market mechanism will not be independent issues but rather will all be parts of unified market development. During the process of change from the old to a new system, market growth will naturally become the main element in reform systems engineering that will include a molding of the main market element, establishment of a market organization, and improved market regulations, as well as a market mechanism, particularly the rationalization of the price mechanism.

It was with this understanding in mind that we simplified administration during the last reform by delegating authority, relying less on the central plan, and removing

price restrictions to encourage market growth. This program obviously has quite a few limitations. The use of these measures to create markets also made it very difficult to genuinely reach the goals we had anticipated. One example was the curtailment of command-style plans. Although this left a certain amount of space for the development of markets in the sense of greater commodity availability, it did not solve the problem of how to shape the main market element, nor did it solve market organization problems, or problems in sorting out market signals and improved regulations. Removal of price restrictions also can really spur changes in the market signal mechanism, but in the absence of a reaction from a main market element and without a related market organization, it may provoke a distortion of the market signaling system resulting in erroneous signals for the allocation of resources. At the present stage, therefore, positive market growth is not just a matter of continuing to remove administrative controls and the simultaneous introduction of a market mechanism. Reform really requires that we remain determined to address the problem of organizational substance in the change of mechanism, which is to say the problem of structuring and building a market organization. This means that we must respond to the need for overall integrated reform of all aspects of the system in the development of markets and must place more emphasis on market organization in light of shortcomings in market development during the previous stage. Only such a basic approach can produce substantive advances, making the market mechanism become a nascent or inherent mechanism in the new economic system. Our market development will then be able to reach the point where it is irreversible. This effort may be divided into three tasks as follows.

1. Moving ahead actively with ownership system reform, creating the basic conditions needed for the development of market organization. No socio-economic activity can be realized through a single organizational system. To get results, one must make choices based on the returns that can be obtained and the price that must be paid for different kinds of market organization. One prerequisite is the clarification of ownership relationships. When ownership relationships are clear, both enterprises and the market organization can operate in the corresponding environment to think of ways of finding an organizational framework and a system that provides the lowest transaction cost. If property rights are not clear, putting efforts into lowering costs will be impossible, nor can limited resources be used most effectively. On the contrary, people will think of ways to prevail over the government. Therefore, unless the prevailing system of property rights whereby administrative levels and zones decide on allocations from the top down is fundamentally changed, no substantive advances can be made in basic tasks such as the definition of property rights and the clarification of property rights relationships. Thus, there will be no way to change the present

excessive administrative interference and unequal opportunity, nor will truly normal competition be possible.

One extremely important means of changing the administratively caused inequality of opportunity in the existing ownership rights system is to move ahead actively with the transfer of enterprise ownership rights to promote the flow and the reorganization of key production elements in accordance with commodity economy principles. Assets will consequently be invested for use in ways that produce maximum value. In addition, the separation and transfer of the different rights encompassed in ownership rights, including use rights, benefits rights, and transfer rights can promote the founding and change of different types of market organization. This will also produce an important component in the building of a market organization.

2. Improved organization and development of regional markets. One prominent problem in the development of China's markets is the lack of separation of government administration from enterprise management, and excessive government meddling. If we make a further analysis of what "government" means in this context, however, we will find that the structure of government decision making authority at all levels today differs very greatly from that which existed in the past. In the process of changing from a centralized planned economy to a commodity economy characterized by decentralized decisionmaking authority, both the organizational coordination and the decisionmaking authority of local governments at all levels has greatly increased. Consequently, in order to meet this change, efforts to get local governments at all levels to play an active role in pushing ahead with market organization, particularly the building of regional markets, holds extremely important significance. Currently numerous comrades have raised criticisms of the high degree of lateral decentralization among individual regions. They believe that this amounts to operating an "economy of separate princely states." Actually, the fault does not lie with local governments but rather with the central government's choice of an overall framework for management of the economy. Take the situation at the present time. The increase in local government capabilities, and even the appearance of blockading with regard to local economic organization may possibly have been difficult to avoid in the growth of markets, and a price may have to be paid for it. Whatever the case, we must do everything possible to leave this stage behind. Some local governments now strongly realize as a result of their own experiences in reform the need to leave the limitations of the present administrative zones to form associations with different regions in accordance with a rational economic regional organization, taking the road to the organization of regional markets. Of course, in the organization of these regional markets, certain matters must also be given attention. One is a determined separation of government administration and enterprise management, the government establishing regulations and the enterprises being



given a free hand in operation. Second is the definite need to prevent the building of markets from becoming subordinate to administrative zones, planning of the regional scale for the building of markets to be in accordance with a rational market radius. Third is the need to make the building of regional markets an integral part of the development of a nationwide unified market that is uniformly designed, planned, and coordinated.

3. Reform of the old market trading methods, actively developing new forms of market organization and trading methods. In the process of removal of restrictions on markets since the beginning of reform, a large number of entrepreneurial organizations have mushroomed, however, it has also been found at the same time that a substantial number of these newly founded enterprises remain unable to free themselves from dependence on the so-called units in charge. One important reason is that China's market development lacks intermediate market organizations such as various kinds of associations. The result is that enterprises find it difficult to increase their self-disciplined organization, and they feel at a loss as to what to do when confronted with disorderly market competition. Furthermore, we have not paid sufficient attention to this problem by providing guidance. In the development of the country's market organization at the present stage, frequently a double task is faced in the parallel operation of the new and the old system. Take the places where market trading is conducted, for example, about which two main problems are now faced: One is that the "horse and mule assemblages" inherited from the past must be transformed. Another is that, in the establishment of all kinds of trading centers in the process of reform, the functions of operating entities and trading sites became muddled, and this problem also urgently needs to be straightened out. The two transformations we are facing here share a common orientation in seeking to establish new wholesale markets or commodity trading places that are fairly well organized, conducting open trading and equal competition in these markets. We have now built a number of wholesale markets throughout the country which we are using as a basis for efforts to explore further in many regards, such as using improvement of the currency market as a basis for introducing a futures mechanism, and to advance toward the building of a Chinese futures market.

Beyond this, the need to do more in building a market organization also requires that, while further transforming the price mechanism, we also move ahead actively with coordinated fiscal, tax, and monetary reforms as a means of providing macroeconomic regulation system improvements commensurate with development of the country's markets. Without efforts for such a comprehensive and coordinated reform, practical difficulties will be numerous in the building of a market organization.

### Circulation Sector To Play Key Role in Reform

92P30072D Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese No 48,  
2 Dec 91 p 9

[Summary] At a conference to map out economic reform for 1992, the Deputy Chief of the State Commission for Restructuring the Economic System, Hong Hu, pointed out that reform of commodity circulation will be a major feature of the reform agenda. It is aimed to promote a unified nationwide market which will facilitate the entry of large and medium-sized enterprises into the market arena. Hong stated that improving commodity circulation will play a key role in enhancing large and medium-sized enterprises because it can promote and guide production as well as consumption. Currently, stockpiling and low efficiency in many enterprises have severely hindered production development, and poor commodity circulation is a major obstacle. To improve the circulation sector, we must first and foremost concentrate all forces to enhance state and cooperative commercial enterprises.

### Contract System Suits Uneven Economic Development

92CE0157A Beijing JINGJI GUANLI [ECONOMIC  
MANAGEMENT] in Chinese No 9, 5 Sep 91 pp 12-17

[Article by Song Tingming (1345 1694 2494)] "The Law of Uneven Economic Development of China and the Historical Status of the Contract System"

[Text] Is the contract system a last resort temporary transitional measure after all, or a permanent and consistent basic system implemented to increase the vitality of the economy of public ownership? This has been a question of common concern since the widespread implementation of the contract system in the reform of China's rural and urban economic structure. In the rural areas, practice has provided an unequivocal answer to this question, namely, that the responsibility system, based on the rural household contract system of linking remuneration to output, meets the demand of the development of productive forces in the rural areas at China's present stage. In urban areas, the Seventh Plenary Session of the 13th CPC Central Committee and the Fourth Plenary Session of the Seventh National People's Congress reiterated that we should continue to adhere to and perfect the enterprise and financial contract systems during the "Eighth 5-Year Plan." But do we continue to implement the contract system or switch to other methods during the "Ninth and Tenth 5-Year Plan" periods? There is no clear answer yet. Obviously, in order to reach a correct conclusion, we need to thoroughly and painstakingly examine the social and economic causes for the contract system of China.

### **The Law of Uneven Economic Development in China Is an Objective Basis for the Implementation of the Contract Management System**

The contract system can be implemented extensively in China because it is the objective demand of the economic development of China's rural and urban areas, and an inevitable outcome of urban and rural economic system reform.

China suffers not only from a large population, a weak foundation, and a very underdeveloped commodity economy, but also from extremely uneven economic development. This is a basic national condition as well as a basic law of China in the initial stage of socialism. This law is demonstrated mainly as follows:

1. Economic development is extremely uneven between the different regions. Due to historical reasons and the influence of many factors, such as natural resources, geographic position, transportation conditions, and technological and economic strength, there is a great gap between the economic development levels of the eastern coastal areas and the central inland and western remote areas of China. There is a great difference between their major economic and technological indexes. A comparison of the 1989 economic situations of industrial enterprises that practiced independent accounting in China's 30 provinces, autonomous regions, and municipalities showed that the difference between highest and lowest average workers' labor productivity was 4.03-fold, and that the difference between the highest and lowest average ratio of tax to capital was 3.95-fold. Looking at national income as another example, of China's 30 provinces, autonomous regions, and municipalities, only 14 delivered profits to, and did not receive subsidies from the state. As many as 16 provinces and autonomous regions needed financial subsidies from the central government. About 50 percent of all counties in China needed state financial subsidies. The problem of uneven regional economic development in China cannot be fundamentally resolved within a short period of time.

2. Economic development is extremely uneven among different industries. No matter how we divide it—agriculture, light industries, and heavy industries or the primary, secondary, and tertiary industries—economic development is extremely uneven among different industrial sectors or trades. Take the different sectors of industry for instance. After comparing 30 industrial sectors which are categorized by the statistics department, we found that the difference between the highest and the lowest average value of fixed assets of industrial enterprises that practiced independent accounting was 2,573-fold! The difference between the highest and the lowest average workers' labor productivity of industrial sectors in China is 25.14-fold. The difference in the ratio of tax to capital was 662.17-fold. The difference in the ratio of tax to capital in the coal industry was as low as -1.74 percent. As far as production and management conditions are concerned, the coal industry is one of the industries with the greatest labor intensity and most

difficult production conditions. The extreme disparities among industries are caused mainly by the difference between the organic structure of industries and the irrational pricing system, as well as the factor of subjective management. It is very difficult to fundamentally change this situation quickly.

3. Economic development is extremely uneven among different enterprises. Organic structure, technological and equipment levels, and production and management situations vary immensely among enterprises under ownership by the whole people in different regions and in different industries, and among different enterprises in the same region and industry. The same input produces completely different output in different enterprises. While some enterprises carry a load of long-term deficits, others enjoy a capital-to-profits ratio of as high as 100 to 200 percent. This situation can be attributed of course to the management levels of the enterprises themselves, but more importantly, it is caused by such factors as an excessive disparity between the enterprises' organic structures and irrational pricing systems. Generally speaking, per-capita fixed assets of enterprises owned by the whole people is an economic and technical index that can best reflect the standard of organic structure of enterprises. At present, some enterprises only have 1,000 to 2,000 yuan of per-capita fixed assets, while others have as much as 400,000 to 500,000 yuan. The per-capita annual output value of some enterprises is as high as 600,000 or even 800,000 yuan, while average annual per-capita output value of industrial enterprises in 1990 was only 18.917 yuan. The difference was 30- to 40-fold. This uneven situation among enterprises also cannot be corrected overnight.

4. Economic development is extremely uneven among different economic factors. Since the reform and opening up, China has gradually formed an ownership pattern that is dominated by public ownership and that allows the co-existence of multiple economic factors. Economic development is also very uneven among different economic factors. In the public economy, a great difference exists between the financial, tax, and management systems of the economy of ownership by the whole people, and of the economy of collective ownership, resulting in extremely uneven development. Within the economy of ownership by the whole people, there is a wide gap among the financial, tax, and management systems of enterprises under the direct control of the central government, and of state-owned enterprises at various local levels. Within the economy of collective ownership, the management, financial, and tax systems also vary between urban collective enterprises of various sizes, enterprises run by educated youth, township enterprises, and people's government enterprises. Within the non-public economy, the disparity is even greater among enterprises in the individual economy, private economy, and those that are foreign-funded. In recent years these economic factors have developed rapidly after the state had adopted the preferential policy of encouraging the rural and urban collective economy, properly developing

the non-public economy, and attracting foreign funds. Statistics show that in 1990, industries owned by the whole people in China increased only 2.9 percent and they were in a very difficult situation. Industries of collective ownership increased 9.1 percent, and of these, industries run by townships increased 12.5 percent, maintaining a fairly rapid growth momentum. Individually-owned industries increased 21.6 percent. Joint ventures, cooperative enterprises, and wholly-owned foreign industrial enterprises increased 56 percent. It is very difficult to reverse in a short time the very uneven development caused by policy differences among different economic factors.

The uneven economic development of China is, of course, not limited to the above few aspects. The uneven characteristic is especially obvious in regard to the income levels of urban and rural households, living conditions, the quality of life, and individual consumption. This shows that the law of uneven economic development in China is a basic and absolute law at the present stage. It is an objective basis for the implementation of the contract system, as well as a basic point of departure for us to carry out the reform and construction.

However there are two different views on how to carry out reform and develop the socialist commodity economy. One view ignores the law of uneven economic development in the initial period of socialism in China, deviates from the national conditions and reality of China, mechanically copies the practice of foreign countries, and attempts to use the models and methods that others use to manage the developed modern commodity economy in managing the commodity economy of China, which is still underdeveloped and in its initial stage. For instance, they are anxious to carry out a tax-for-profit and tax-separation systems, and the separation of taxes from profits. The result is always contrary to their wishes. It not only cannot help increase the enterprises' vitality and accelerate the development of the commodity economy, it also puts enterprises and the national economy as a whole in a more difficult situation. Another view earnestly follows the law of uneven economic development of China, proceeds from national conditions and reality, and adopts the management system and methods which we have devised to suit the characteristics of the underdeveloped commodity economy of China in its initial stage. For instance, it implements the financial contract system to flexibly handle the complicated financial distribution relations among the central government, local governments, and local government organs at all levels. It also implements the enterprise contract system to handle the very different profit distribution relations between the state, and among the millions of state-run enterprises so as to fully arouse the enthusiasm of the state, localities, and enterprises. Practice has proven that the latter view is a good view that flexibly uses the law of uneven economic development of China to carry out reform and opening up, and to accelerate the development of the socialist

commodity economy. For instance, Guangdong Province was the first province to implement the financial contract system in China. After 10 years of implementing the contract system, its revenue increased more than 3-fold and the amount of revenue it delivered to the state increased 3.5-fold. It is a province with the fastest economic development in China. For another example, the Shoudu Iron and Steel Company was one of the first group of enterprises implementing the enterprise contract system. After 10 years of implementation, its profits increased 6.11-fold and its tax and profit delivery to the state increased 3.05-fold. It was like turning one company into four companies. Of enterprises in China, it jumped to being the one with the best economic returns and which have paid the most taxes and delivered the most profits to the state. The experience of Guangdong Province and the Shoudu Iron and Steel Company proves incontrovertibly that the contract system is an inevitable product of the law of uneven economic development in China. It is the best choice for correctly handling the reality of the relation of profit distribution between the central and local governments and between the state and the enterprise. It is also the best form for developing the socialist commodity economy with Chinese characteristics.

#### **The Contract System Has the Internal Function of Extensively Adapting to the Uneven Economic Development of China**

Due to the restriction of the law of uneven economic development, the profit equalization process of China's commodity economy is very slow. The function of the law of the average profit rate is very limited in scale. The profit level of individual enterprises differs substantially not only from the average profit level of the entire society but also from the average profit level of the same industry. The uneven profit level of enterprises is a very prominent phenomenon. This is an important difference between Chinese enterprises and the enterprises of countries with developed commodity economies. Although there is a wide gap between the profit levels of different industries and enterprises, the average wage levels of workers are, however, very close. For instance, based on the average worker's wage in each industry, the difference between the industry of the highest wage and that of the lowest wage is only 0.8-fold. Based on the average worker's wage of each region, the difference between the region of highest wage and that of lowest wage is only 0.87-fold.

Given that the current situation among Chinese enterprises a question is: Is it possible to immediately and extensively carry out in China an income tax system based on the average profit rate of the entire society and that is being extensively currently implemented in economically developed countries? Is it possible for all enterprises to assume sole responsibility for their own profits and losses after paying taxes according to the unified national enterprise income tax rate, and distribute their after-tax profits among the owners according to property rights relations? As a matter of



fact, a very clear answer has been provided by the practice of the two-step tax-for-profit reform carried out since 1983, and the experiment of separating taxes and profits currently being conducted in some cities. Because profits have not been equalized in China, there is absolutely no way that a unified enterprise income tax rate can be enforced on a nationwide scale. It is very difficult to enforce it on even the small scale of a city. Of the five cities currently practicing separation of taxes and profits, some use a varied enterprise income tax rate, which is different for every unit and is calculated using the method of "reverse accounting." Some cities use a multi-bracket, progressive enterprise income tax rate. Some cities use the 15 percent, low enterprise income tax rate. There is only one city that uses the 35 percent income tax rate, but its enterprises are having great difficulties.

What needs to be pointed out in particular is that the view advocating all-round implementation of "separation of taxes and profits, after-tax contracts, and after-tax loan repayments" has also ignored a basic reality. That is: In 1990, the scale of deficits of budgetary industrial enterprises owned by the all the people in China had already reached 34 percent. In the first 4 months of 1991, the scale of deficits rose again to 39.5 percent. The profits of these enterprises were negative after the circulation tax. What could they use to carry out the "separation of taxes and profits" for income taxes and profit retention? Enterprises lost money already. What could they use to pay back loans after taxes? Don't they also need technological transformation?

Many localities began to usher in the word "contract" back even before 1983. They experimented with the contract management responsibility system in urban enterprises and achieved outstanding results. In the spring of 1983, guided by the ideology of unifying enterprise income tax rates, China decided to stop the implementation of enterprise contracts and carry out the tax-for-profit reform in a unified manner throughout the country, while allowing a few enterprises to continue to experiment with the contract system. When China enacted the first step of the tax-for-profit reform in 1983, the state specified that the unified national enterprise income tax rate was 55 percent. The result of 1 year of enforcement showed that the overwhelming majority of low-profit and minimum-profit enterprises had very little profits left after paying income taxes, and the enthusiasm of the "slow ox" was dampened. Few enterprises with extremely high levels had much left after paying 55 percent income taxes. So to the "fast ox", it was like icing on the cake. In view of this, when enacting the second-step of the tax-for-profit reform in 1984, China levied a varied enterprise profit regulatory tax on these high-profit enterprises, in addition to the 55 percent income tax, in an attempt to resolve the problem of uneven hardship and happiness among enterprises. But enforcement of the enterprise profit regulatory tax caused the phenomenon of "whipping the fast ox," and dampening the enthusiasm of high-profit enterprises.

The result of the two steps of the tax-for-profit reform was to put both the "slow ox" and "fast ox" in a predicament. The amount of profits earned and taxes paid, and profits delivered by budgetary state-run industrial enterprises throughout China slid continuously for 20 months between September 1985 and April 1987. After extensive implementation of the enterprise contract management responsibility system in April 1987, China saw results in the very same month. In May 1987, profits, tax payments, and profit delivery of budgetary state-run industrial enterprises showed a promising upward trend, thus rapidly reversing the passive situation.

Under the enterprise contract management responsibility system, after enterprises pay to the state three circulation taxes (namely business tax, product tax, and appreciation tax), the state proceeds from the uneven economic development of China and the production and management reality of the enterprise and uses the amount of income taxes and profit regulatory taxes originally paid by the enterprise to the state as a basis for calculating a realistic base figure of profits each enterprise should deliver to the state. As for the amount of newly increased above-base profits, the state assigns another ratio of distribution between the state and the enterprise instead of using the original income tax rate and the profit regulatory tax rate so as to encourage enterprises to earn and retain more profits. In order to maintain the unity of the tax system, many areas adopted the method of "self-financed reform" in the first round of contracts. Namely, enterprises still settle accounts with the state revenue department according to the provisions of the two-step tax-for-profit reform. When they deal with local revenue departments, they go by their contracts. If they pay too much according to the contract, they will get the excess back from local revenue departments. This can guarantee the steady growth of state revenue and encourage enterprises to earn more profits. Because of this, it is well received by all localities and enterprises. This contract system in fact uses the method of determining a contract profit base figure and ratio for each enterprise to replace the original national "uniform" enterprise income tax rate and the profit regulatory tax which dampens enterprises' enthusiasm for earning more profits. Although it still has such problems as one-on-one negotiation and an unscientific determination of base figures and ratios, it does after all proceed from the actual conditions of every enterprise and realistically determine the relation of distribution between the enterprise and the state. It meets the demands of the law of uneven economic development of China and avoids the defects of "uniformity" and "whipping the fast ox" in the two-step tax-for-profit reform. This is why it can be widely implemented in over 90 percent of state-run industrial and commercial enterprises in China.

During over 10 years of reform and opening up, the contract system has traversed tortuous roads of development in China's urban and rural areas. It has gone

through repeated comparison and selection, and has withstood severe tests. Practice has proved that it has great vitality. It is not hard to see that the contract system itself has had the internal function of adapting to the current situation of uneven economic development of China.

1. The contract system is suitable for different industrial departments. Whether industrial departments are categorized in a traditional manner into agriculture, industry, and commerce, or in a contemporary manner into the primary, secondary, and tertiary industries, different forms of the contract system can be used to coordinate and handle the economic interest relations among them.

2. The contract system is suitable for different ownership systems. Practice has proven that whether there are enterprises owned by the whole people, collective enterprises, or even individual and private economies and some "enterprises" of three capital sources, they all can implement the contract responsibility system in various forms. Statistics show that about one third of joint ventures and some share-holding enterprises in Shenzhen City have implemented the contract management system and that some 40 percent of joint ventures in Xiamen City have also signed management contracts under the name of either Chinese or foreign investors.

3. The contract system is suitable for enterprises of different scales. It is suitable for large modernized backbone enterprises with a large scale of production and management. It is also suitable for enterprises whose production and management level is fair or even poor. In other words, the contract system is suitable for both profitable and high-profit enterprises and low-profit and money-losing enterprises. It can stimulate the "fast ox" whose production and management level is high to continue to make contributions to the state and enable the "slow ox" whose production and management level is low to have an opportunity to rest and recuperate, encouraging them to quickly extricate themselves from the predicament and catch up with the advanced.

4. The contract system is suitable for enterprises in different regions. Enterprises in both economically better developed east coast and developing central and western areas can implement the contract management responsibility system and have already achieved marked results.

A basic reason why the contract system is so broadly compatible is that it can proceed from the actual conditions of different regions, industries and enterprises can flexibly determine the base figure of contract and the ratio of profit delivery for each enterprise. The contract system uses its high flexibility to offset the extreme unevenness of economic development in China. It is basically unrestricted by objective economic conditions. Because of this, it can be widely popularized. But other production and management responsibility systems and enterprise organization forms such as the lease and

share-holding systems can be implemented on a trial basis only in certain areas and enterprises. They cannot be popularized immediately in all areas and enterprises of China due to the restrictions of various subjective and objective conditions. Of course, the contract system is also compatible with the lease and share-holding systems. For instance, some share-holding enterprises have factory directors (managers) sign management contracts with the board of directors of share-holding representatives. The only difference is that, instead of government organs, the board of directors, issues the contract. For another instance, some superior contract enterprises whose production and management are good may take over inferior poorly-managed enterprises through the method of lease. Because of this, we probably cannot find a better form of production and management responsibility system to replace the contract system in a fairly long period of time.

#### **The Contract System Is the Model of Production and Management for the Initial Period of Socialism in China**

The fate of the contract system in history is determined first by the degree of uneven economic development overcome by China and ultimately by the level of development of social productive forces in China. Before the profit equalization process is completed and the average profit rate formed, the contract system will play its irreplaceable historical role for a long time to come. We may say that the day the initial period of socialism ends and the four modernizations are fulfilled is the day the contract system withers away automatically. At that time it will be automatically replaced by a more sophisticated model of enterprise production and management that is better suited to the development and demand of the modern commodity economy. Even at that time, this form of production and management itself will not really die out. It will only change its form of expression. Therefore we do not believe in the "short-life theory" of the contract system, nor do we believe in the "long-life theory" of the contract system. We believe in the "stage theory" of dialectical and historical materialism regarding the rise, development, and decline of the contract system.

The superiority of the contract system is demonstrated mainly in two areas:

First, the contract system has created favorable conditions in the two areas of simple and expanded reproduction to enable enterprises to become really independent commodity producers and managers.

Judged from the process of simple reproduction of enterprises, major current problems are that the depreciation rate of fixed assets of enterprises is too low and the recovery time for equipment investment is too long, thus seriously affecting the technological transformation and development stamina of enterprises. At present, the national comprehensive depreciation rate of industrial enterprises is only 3.3 percent. After deducting from the

depreciation funds the factor of inflation, 25 percent of energy, transportation, and budget regulation funds, and funds used to purchase treasury bonds, the actual comprehensive depreciation rate of enterprises is only about 3.5 percent. The actual recovery period of equipment investment is as long as 25 years. It is very difficult for enterprises to use this limited amount of depreciation funds to carry out major technological transformation. But if China substantially raises enterprises' depreciation rate across the country, the state treasury will not be able to withstand it. Through the enterprise contract system and the practice of the "two guarantees and one link," under which enterprises' technological transformation task is considered an important content of enterprise contracts, the state allows enterprises to use pre-tax profits to repay loans for the equipment of new technological transformation projects, namely to carry out accelerated depreciation, under the precondition that the depreciation rate of original equipment remains the same. This enables enterprises to recover the investment of new technological transformation projects within 4 to 5 years and then use the investment in turn for the transformation of old equipment. By continuing this cycle, in about 20 years or so we will be able to gradually correct the current enterprise depreciation system in China and make it really suit the simple reproduction cycle of enterprises, meet the demand of the development of commodity economy, and be consistent with international practice. To raise the depreciation rate, the enterprise contract system concentrates efforts on new technological transformation, thus helping not only the state treasury to withstand the pressure but also the enterprise to develop. This is an important reason why the contract system can be widely implemented, approved by financial departments, and welcomed by enterprises.

Judged from the process of expanded reproduction of enterprises, current problems are that the amount of profits retained by enterprises is too little and that the amount of retained profits used for production and development funds is seriously insufficient or even misused for other purposes or nonexistent. If the profit retention level of enterprises is raised substantially, the state treasury will not be able to withstand the pressure at the present time. Through the enterprise contract system, the state's vested financial income will be guaranteed by the contract base, the steady growth of state financial income will be guaranteed by the ratio of delivery of increased profits, and most of the newly increased above-quota profits which is above the contract base and the ratio of delivery will be retained by enterprises. In this way, the more new profits enterprises make, the more profits they will retain for the development funds of expanded reproduction and the greater the vitality of the enterprises. This shows that in the distribution of profits, the contract system concentrates on the portion of newly increased profits, enabling enterprises to maintain the original pattern of profit distribution, gradually increase their ability to expand reproduction, and better combine the effort to ensure steady growth of

state revenues and efforts to encourage enterprises to strive for more profits. This is another basic reason why the contract system has great vitality.

In sum, the contract system proceeds from the depreciation of new technological transformation projects and the distribution of newly increased above-quota profits, and gradually enables enterprises to restore the complete function of voluntarily carrying out simple reproduction and continuing to expand reproduction, and increases their ability to carry out self-management, assume sole responsibility for their own profits and losses, and develop and restrict themselves. This will enable enterprises to gradually realize the transition from the product economy to the commodity economy, and accelerate the vigorous development of the socialist planned commodity economy. Because the contract system has the special mechanism of forming a new system on the basis of the original interest pattern, it is also a very good form for the realization of the transition from the old to new system.

One view holds that implementing the enterprise contract system is "delegating power and giving up profits." The reality is just the opposite. The contract system is a mechanism that "returns power and creates profits." Namely the state returns the enterprises' decision making power in production and management back to the enterprises, and enterprises fully utilize these decision-making powers to create more profits for the state—of course enterprises can also gain more "self-disposable moses." If the state does not return the decision-making power in production and management back to the enterprises, they will not be able to create more profits and the state will not gain any profits, not to mention give up profits. Another view holds that the enterprise contract system is "substituting management with contracts." In fact, occurrence of such a deviation on the individual enterprise is a purely a technical problem. It is not a defect inherent in the contract system. The successful experience of contract enterprises such as the Shoudu Iron and Steel Company proves that implementing the contract system can help "promote management with the contract." In other words, through internal multi-level contract, guarantee, and approval of enterprises, we can establish and perfect the economic responsibility system, and give impetus to and promote the internal management of enterprises.

Second, the model of tax and profit co-existence adopted by the contract system can help the state organically combine microeconomic revitalization with macroeconomic regulation and control.

Under the contract system, the distribution relation between the state and the enterprise is based on the method of tax and profit co-existence which can maintain the unity of the state financial and tax system and give play to the flexibility of enterprise management. It is conducive to organically combining unity and flexibility. Through the unified levy of three circulation taxes (namely business, product, and appreciation taxes) on



enterprises, the state directly participates in the first distribution of profits between the state and enterprises, uses the tax lever to conduct standard macroeconomic regulation on enterprises, and exercises the function of administration and management as a social manager. At the same time, through signing contracts with enterprises, the state sets the base of profit delivery and growth ratio, which are then used to conduct non-standard second regulation on enterprises, indirectly participates in the redistribution of enterprise profits after circulation taxes, and exercises the function of income distribution as an owner of state property. This distribution model of tax and profit co-existence, under which enterprises pay taxes and deliver profits to the state, demonstrates the unity of the state tax system and the flexibility of enterprise profit distribution. It is conducive to separating the two functions of social manager and state property owner of the state, enabling the relation of profit distribution to remain relatively stable between the state and enterprises. When an enterprise's contract expires and begins a new round of contracts, the state can reassess the base of contract and the ratio of profit delivery in accordance with new situations and readjust the distribution of profits between the state and the enterprise, thus gradually rationalizing the situation of profit distribution. We ought to say that this is a model of distribution suitable for the reality of uneven economic development in the initial period of socialism and the current situation of enterprises in China.

Of course, like everything else, the contract system has advantages and weaknesses. It cannot be perfect. The process of perfecting and developing the contract system is a process of developing advantages and eliminating weaknesses. For instance, how do we overcome the short-term behavior of a few enterprises and establish the self-restraining mechanism of enterprises, set rational contract bases, perfect the terms of contracts, and handle well the profit distribution among the state, enterprises, and individuals, overcome the phenomenon of "replacing management with contracts" in individual enterprises, strengthen the internal management of enterprises, fully arouse the enthusiasm of the broad masses of cadres and workers, and increase the economic returns of enterprises, and strengthen the technological transformation of enterprises, accelerate technological progress, and increase the stamina of enterprises? All these need further study and improvement.

#### Article on Urban Reform Pilot Projects

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[Article by He Guanghui (6320 0342 6540): "Strive To Open Up New Prospects for Urban Reform Pilot Projects"]

[Text] Our country's urban reform pilot projects have been under way for a decade, a period of active exploration. Although we have met some difficulties along the

road, it has largely been a success. Many cities have organically integrated rectification and improvement with the deepening of reform, taken the initiative in carrying out work, and have made new headway. Through the practice of urban reform pilot projects, we have accumulated helpful experiences and laid a firm foundation for promoting economic restructuring in the whole country.

#### Progress, Experience in Urban Reform Pilot Projects

Urban reform pilot projects have been under way for 10 years now, since July 1981, when Hubei's Shashi City was chosen to carry out a pilot project in comprehensive urban reform. The campaign developed from pilot projects in enterprise reform to pilot projects in market and circulation reforms, from unitary reform pilot projects to comprehensive pilot projects, and from pilot projects in urban reform to pilot projects in regional reform integrating urban and rural areas and centered on cities. The pilot projects were continually deepened, the scope widened, the contents enriched, and the degree of difficulty enlarged. By 1987, the cities carrying out pilot projects in comprehensive reform increased to 72, including all the metropolises except Beijing, Tianjin, and Shanghai, as well as some 60 percent of major cities. Some cities also carried out unitary pilot projects in reform of housing, finance, social welfare, and government organization. Urban reform pilot projects are aimed at breaking the division between central and local administration and the barrier between urban and rural areas, fully developing cities' function as centers, and enhancing the vigor of enterprises. Coordinated reforms at different levels have been carried out and a lot of good experience has been gathered.

In 1988, to adapt to the new situation of economic development, furthering reform, and expanding opening up, and to strengthen leadership over pilot projects, the State Commission for Economic Restructuring, with the State Council's approval, arranged reform pilot projects into three stages. The comprehensive reform experimental zones in Guangdong and Fujian would take the lead in exploring the building of a new system of planned commodity economy; cities, and cities listed separately in the State Plan, approved by the State Council to carry out pilot projects in comprehensive reform would carry out coordinated reforms centering on intensifying enterprise reform and changing the enterprise operation mechanism, and the cities approved to carry out pilot projects in comprehensive reform in other provinces and autonomous regions would carry out reform pilot projects with an eye on their local conditions and allowing different characteristics in their reforms. We can say that reform pilot projects were launched thoroughly and combined with the whole project of economic restructuring. Thereafter, because the problems of an over-heated economy and inflation occurred during economic development, the central authorities proposed the principle of rectification and improvement and of deepening the reform. Therefore the content and external environment of urban reform pilot projects

changed. However, in the past three years, various cities carrying out pilot projects have organically integrated rectification and improvement with increasing reform, taken the initiative in launching work, made new progress in reform pilot projects, and have created new experiences. The main characteristics are as follows:

—They successfully explored ways to build an operation mechanism which integrates planned economy with market regulation. In the past few years, Suzhou, Wuxi, Changzhou, and other cities, have ceaselessly explored and sought ways to develop the socialist planned commodity economy and ways to organically integrate the plan with the market, stimulating a sustained and stable economic development. In just a few years, Suzhou rapidly developed from an ancient city for sightseeing to a large economic city. Its total industrial and agricultural output value ranked fourth behind Beijing, Tianjin, and Shanghai.

—New progress was made in expanding opening up to the outside world and developing the export-oriented economy. Zhujiang Delta and a number of coastal open cities such as Dalian, Qingdao, and Guangzhou, fully utilized their geographical strong points, and the open-door policy granted to them by the central authorities, to actively develop the export-oriented economy and further various reforms, enabling their economies to develop in the export-oriented direction. During the Seventh Five-Year Plan, Guangzhou actually utilized more than \$1 billion in foreign funds, which was already an important source of investment. In 1990, the city's self-operated total export value accounted for 24.6 percent of its GNP. The special economic zones, such as Shenzhen and Xiamen, proceeded at a faster pace in developing the export-oriented economy and building a new economic operation mechanism, gathering a lot of good experience.

—They strengthened market concept, actively developed the market, and vigorously launched reform of the circulation system. In the last few years, Wuhan, Chongqing, Chengdu, Suzhou, Wuxi, Changzhou, and other cities have constantly viewed invigoration of circulation and development of the market system as an important content of reform, creating the necessary conditions for pushing enterprises onto the market. Chengdu City built a street which is a means of production market and Shenyang and Suzhou launched pilot projects in establishing materials trade groups. Tianjin City courageously carried out reform of the grain circulation system, sought innovations, separated policy operation from normal operation, adopted the method of showing losses caused by policy, initially strengthened the vigor of enterprises engaging in grain operation, reduced financial subsidies, scored marked economic and social returns, and cleared a path for the reform of the grain circulation system. Chongqing City took the lead in practicing the four "invigorations" of operation, price, distribution,

and labor employment, in the city's state-run commercial enterprises and supply and marketing cooperatives, providing new experience in invigorating commercial enterprises.

—They adopted effective reform measures, adjusted the economic structure, and promoted the optimal composition of production factors. Wuxi City organically integrated the plan with the market, along with the government's macroeconomic guidance and assistance, enterprises made their own decisions and operated at their own will, fully developing the role of market regulation and enabling the adjustment of economic structure, to make gratifying progress. Harbin City changed the government's economic management function, employed economic means, effectively promoted the optimal composition of production factors, and increased economic returns.

—The urban reform ceaselessly extended to counties and districts, stimulating the development of a union of urban and rural areas and enhancing the cities' economic strength and comprehensive service function. After Nanjing, Qingdao, Xiangfan, and other cities practiced city leadership over counties, urban reform and development were integrated with rural reform and development, the barrier between urban and rural areas were removed, and urban and rural areas formed a whole. Between urban and rural areas, commodities, materials, funds, technology, information, and personnel flowed bilaterally and united extensively, the cities functioning as centers. Shenyang City's Shenhe District, and Taiyuan City, paid attention to straightening out city-district relations and delegated the necessary management power; the district governments changed duties and functions, actively developed district and street collective enterprises, lifted restrictions on operation, changed the enterprise operation mechanism, and relied on scientific and technological advancement to enable the district economies to develop rapidly. At the same time, they actively developed the tertiary industry, developed services and socialized reform, strengthened the service function of city districts, and created better conditions for enterprise operation.

—Enterprise reform was continuously deepened and the enterprise operation mechanism was actively changed. This was the key point of reform grasped by almost all the pilot project cities, which adopted different reform measures according to their own characteristics. For example, Tianjin, Jinan, Nanjing, and Mudanjiang looked at the different conditions of the large- and medium-sized enterprises owned by the whole people resolutely overcame interference, gave different guidance for different things, adopted different reform measures, implemented the enterprise's right for self-determination in operation, actively changed the enterprise operation mechanism, and scored initial results. This year, Shandong Province has grasped work in three areas to invigorate state-run large- and

medium-sized enterprises. First, resolute implementation of "Enterprise Law" and the enterprises are very happy; second, cities are allowed to play various functions, socialized services have been grasped, and gradually solved the problem of enterprises running the society; and third, proceeding from distribution, the operation mechanism has been changed.

In recent years, the practice of urban reform pilot projects accumulated valuable experiences. These basic experiences can be summarized into the following five aspects:

**Strengthening reform consciousness and stepping up organization and leadership is the prerequisite to smoothly promoting urban reform pilot projects.**

Building a new socialist planned commodity economy system and an operation mechanism integrating the planned economy with market regulation is a long-term and arduous duty which requires us to use our practice in the pilot projects to explore workable and concrete methods for building the new system and changing the mechanism, so that we may sum up experiences and continuously develop the nationwide reform. Therefore, it is necessary to improve understanding of reform pilot projects, strengthen leadership over them, and enhance the spirit of taking the initiative and the sense of exploration. Only by so doing can pilot projects be continuously improved upon. Practice proves that whenever a place attaches importance to leadership over reform and has a strong sense of exploration, it will achieve marked results.

**Firmly grasping the socialist direction of reform is the political foundation ensuring a healthy development of urban reform pilot projects.**

The reform is a self-perfection and development of the socialist system and must uphold socialist orientation. It must uphold various economic sectors with public ownership as the mainstay and uphold various distribution patterns with distribution according to work as the mainstay. In the past few years, Sanming City's CPC Committee and Government have adhered to the principle of simultaneously promoting and combining reform and opening up, economic development, and spiritual civilization. In the course of practice, they formed an effective system and method and built Sanming City into a socialist civilized city which is "politically stable, economically prosperous, spiritually civilized, with a beautiful environment and convenient lifestyle." Sanming City's experience indicates that under the conditions of development of socialist commodity economy, it is not only necessary but also possible for cities to strengthen building the two civilizations. Only thus can we turn urban construction into a strong front for upholding and improving the socialist system.

**Development of the socialist planned commodity economy and an exploration of building an economic operation mechanism which organically integrates the plan and the market, is the basic duty of urban reform pilot projects.**

The goal of economic restructuring is to build a new system of socialist planned commodity economy and a new mechanism organically integrating the plan and the market. Urban reform must always be carried out centered on this goal. The plan and the market not only may, but can be integrated in a very positive way. Although different places have different experiences, to concentrate them as one idea must be based on building a new mechanism which organically integrates the plan and the market, carrying out coordinated reforms of enterprise mechanism, market development, as well as the government's role and function, and exploring concrete ways of organically combining different tiers, spheres, and domains. In this regard, Suzhou City's experience is typical. Active development of the urban and rural collective economies, and a change in the enterprise operation mechanism were the foundation for integrating the plan and the market; active development of the market and development of a market system was the beginning point of organic integration of the plan and the market; horizontal economic union was used as the channel for exchanges between the plan and the market, and improvement of the government's planned management and methods of regulation and control were taken as the crucial point of integration of the plan and the market. These measures have a universal guiding significance. We can say that an economic operation mechanism integrating the planned economy and market regulation has already taken shape in Suzhou, Wuxi, and Changzhou and that the socialist dawn with Chinese characteristics can be seen in those areas.

**Strengthening vigor of enterprises, and especially large- and medium-sized enterprises owned by the whole people, is always the central link in urban reform pilot projects.**

Urban reform pilot projects are complicated, involving a wide sphere and numerous duties. No matter whether it is the practice of organic integration of the plan and the market, or the development of various functions of the cities as centers, the work must always surround a center and that is strengthening the vigor of enterprises, especially large- and medium-sized enterprises owned by the whole people. One important criterion when examining urban reform pilot projects is to look at whether or not urban enterprises, especially large- and medium-sized enterprises owned by the whole people, have implemented the self-determination right in operation and whether or not their ability to adapt to the market and their competitive ability have been strengthened. The 10 years of experience in reform pilot projects proves that whenever a place has better urban reform, and whenever its urban function is better implemented, it is a place where strengthening the vigor of enterprises is taken as



the starting point and foothold for urban reform work, surrounding this center, other coordinated reforms are carried out.

**Insisting on consideration of local conditions, proceeding from the reality in doing everything, and giving different guidance for different tasks, is the basic work method for urban reform pilot projects.**

Our country is vast and has unbalanced social and economic developments. Different places have different conditions. Our reform cannot practice the cut-across-the-board method, and it must consider local conditions, giving different guidance for different tasks, and integrating the central government's policy, principle, and reform plan with the actual conditions of economic development in the locality. This will gather experience and methods with distinctive characteristics and with popularization value. The expectation that the central government will hand down a unified method is unrealistic and, even if there was such a method, it may not be workable. Practice in the cities in carrying out pilot projects prove that, so long as we can uphold pragmatism, carry out bold practices, and ceaselessly sum up experience, we can surely score actual results in reform pilot projects. The decade of urban reform was one of active exploration. Although we met some difficulties in the process, judged overall, the pilot projects were successful. The cities implementing pilot projects have provided the country with experience and cleared a path and we should fully affirm this historical role.

#### **New Situation, Main Duties of Urban Reform Pilot Projects**

Compared with 10 years ago, urban reform pilot projects witnessed some new conditions and there is the difficult side and the favorable side. First, the depth, breadth, and difficulty of urban reform pilot projects greatly surpass those of 10 years ago. They are linked to the whole economic and political restructuring. The requirements for pilot projects are higher and coordination is stepped up. Second, urban reform pilot projects have accumulated rich experience in practice. They have a very good foundation and must be upgraded. Third, economic restructuring already has the Eighth Five-Year Plan and the 10-Year Program as guidelines which further defined the goal, direction, and main duty of economic restructuring. In future, urban reform pilot projects are mainly to suit measures to local conditions and explore the concrete ways and methods to realize goals.

After the three-year rectification and improvement, the general situation of reform and development in our country is good. But some enterprises owned by the whole people still have not overcome difficulties. Their pace of economic restructuring is slow while their economic returns are decreasing. There are many reasons for the existence of these structural conflicts and problems in economic life. There are problems of work and problems with the system. Speaking from a certain sense, some system problems are basic in nature. First, the

operation mechanism and management system in enterprises owned by the whole people cannot match the objective requirements of developing the socialist planned commodity economy; second, the price-forming mechanism is irrational, the main price parity relations are not straightened out and are seriously distorted, the market does not have balanced development, various markets or production factors have not been developed, and market management is imperfect, and third, the government has not yet markedly changed its function and style concerning economic management and a flexible and efficient system for macroeconomic regulation and control has not yet taken shape. To conclude, surrounding the topic of realizing an organic integration of the plan and the market, the reform is faced with the necessity to further straighten out some economic relations between the state and enterprises, between the central authorities and local governments, and between enterprises and staff. Thus, it is necessary to handle and adjust the power and interest relations between various quarters properly. These are the difficulties in reform and the key points for future urban reform pilot projects. It is necessary to further expedite the reform, strengthen it, and seek real breakthroughs in overcoming difficulties and tackling key points.

The main demand of future urban reform pilot projects is that based on: The spirit of the "Proposal" tabled at the Seventh Plenary Session of the 13th CPC Central Committee, the "Outline of the 10-Year Program and Eighth Five-Year Plan for National Economic and Social Development," passed by the Fourth Session of the Seventh National People's Congress, and based on the "Outline of the 10-Year Program and of the Eighth Five-Year Plan for Economic Restructuring," approved by the State Council, enhance vigor among enterprises, especially large- and medium-sized enterprises owned by the whole people, and explore concrete ways to realize organic integration of the plan and the market in various economic domains and various links of social reproduction. This will promote adjustment of the economic structure and improve economic returns. In conclusion, we must build a new system of socialist planned commodity economy and an economic operation mechanism, integrating the planned economy and market regulation, and carry out bold explorations and innovative experiments.

According to this main demand, the major duties of urban reform pilot projects in the next several years will be:

**City governments must create conditions for deepening enterprise reform centering on the change in the enterprise operation mechanism.**

An enterprise is invigorated by an operation invigorating mechanism which comes from an economic management system which is suited to development of the commodity economy. Only if we can change the current economic management system and style which are not

suited to the development of socialist planned commodity economy, the enterprises owned by the whole people can then form a flexible operation mechanism. They will have the vitality needed for self-determination in operation and for taking sole responsibility for losses and gains, as well as stronger competitive ability and a stronger ability to respond to market.

At present, there are many reasons for the lack of vigor in enterprises. To invigorate enterprises, we cannot look only at them. We must study the overall situation and carry out comprehensive rectification. In the course of improving enterprise reform, the most important thing for city governments to do is to change the government role in economic management and adopt a series of reform measures to create good external conditions for enterprises to change the mechanism and enhance their vigor. They must develop services for enterprises.

—Resolutely implement the "Enterprise Law," further develop party organizations' function of political core, uphold and improve factory manager responsibility system, and grant enterprises a self-determination right in production and operation. The "Enterprise Law" is the basic law for enterprises and it is necessary to run and protect factories in pursuance of the law. When implementing the "Enterprise Law," the key point is to Uphold and improve the factory manager responsibility system, grant enterprises the right to hire workers and handle personnel matters and the right to establish departments and carry out internal distribution, and to further improve the operation styles and internal distribution methods in enterprises. In this regard, various cities may consider local conditions and do it in a planned, organized, phase-to-phase, and batch-to-batch manner.

It is necessary to actively explore an effective and practical way to run the public ownership system. Apart from further perfecting the contract responsibility system, it is necessary to consider adjustment of enterprise organization and structure and the reorganization of enterprise groups. The key points are to: Promote a shareholding system with the shares being held by legal persons, continually perfect the shareholding system with shares being held by staff within enterprises, and to develop a township and town enterprise shareholding cooperative system. On the premise of summing up experiences, Shanghai and Shenzhen can suitably expand the pilot project domain in issuing shares to the public.

—Adopt earnest measures to reduce the burden on enterprises to a minimum. We should proceed from two aspects. First, change the government's way of managing enterprises, adopt forceful measures to reduce administrative interference and inspection, strictly prohibit wanton appropriations, stop assessment of enterprises for promotion to higher grades, allow enterprises to concentrate energy to run production and operation. Cities which shoulder excess mandatory plan duties can try to change the mandatory

plan to the state mandatory purchase order by coordination with the departments concerned and practice fixed quantity and variety but not fixed price. Provinces and cities do not add mandatory plans. Second, reduce enterprises' burden of running social programs. Actively develop tertiary industry through reform aimed at socializing services, vigorously promote reform of unemployment security, and create a good environment and good conditions for the rational flow of operation and production factors in enterprises.

—Be determined in pushing enterprises onto the market and actively promote adjustment of enterprise organization and structure. Enterprises should organize and arrange production according to market needs. For this reason, we must actively develop the labor market and the production factors market, promoting a rational flow of production factors. We must make up our minds to close, stop, change, and merge some enterprises which do not have production direction, which do not produce saleable products, and which lose money year after year, as well as making some bankrupt. Like Shandong Province, we must protect some enterprises, support some enterprises, change some enterprises, and close some enterprises, doing the four things together and firmly grasping adjustment of enterprise structure. We must set a time limit for enterprises which lose money in operation. Those which do not meet the demand cannot issue bonuses. We must let enterprises look at the market when finding a way out. In a wider scope and at a higher level, cities carrying out pilot projects must actively promote horizontal economic union and encourage enterprises to contract enterprises, merge enterprises, and develop enterprise groups, especially enterprise groups using high and new technologies, to promote optimal composition of production factors, and adjustment of product mix and enterprise organization and structure.

—The State Commission for Economic Restructuring plans to choose one or two cities to carry out coordinated reform pilot projects aimed at changing the enterprise mechanism and enhancing enterprise vigor. The key points are to: Change the government's role in economic management, thoroughly implement the enterprise self-determination right in operation, change the enterprise mechanism, carry out coordinated reforms, implement the "Bankruptcy Law" on a trial basis, expedite the reform of social welfare system, improve labor market, and form a mechanism regulating unemployment and reemployment.

At the same time, when invigorating enterprises owned by the whole people, cities carrying out pilot projects must continue to actively develop the collective economy, especially in districts and counties, including collective enterprises, cooperative enterprises, and township and town enterprises run by districts and streets. They must continue to develop the "foreign-invested" enterprises as well as individual and private economies in an appropriate way.

### **Expedite building a market system and circulation system reform.**

The city is the center for circulation of goods, materials, and information. Its nature is openness. "Prosperous business reaches out to the four seas, bountiful finance comes from the three rivers." To deepen urban reform, we must enable cities to be more open and markets to be more developed. Therefore, to cities, the degree of market development plays a very important role in enhancing enterprise vigor and in developing the urban economy. The cities carrying out pilot projects must make efforts to nourish their markets. Many localities advocate the idea of "government building the stage, enterprises presenting the drama." That is very good because cities should create a good market environment for enterprises to organize operation and production flexibly. We must break the barriers between the higher and lower levels, remove blockades, and enable the flow of goods, materials, and production factors to develop in the direction of high efficiency, smoothness, and the possibility for regulation. We must cancel inappropriate protection measures set up by various localities and change various management methods. Blockades violate the law of commodity economy and restricting others equates to restricting ourselves, while "liberating others means liberating ourselves." Cities must open their doors wider and let things flow in and out.

—Further develop the consumer goods market. When invigorating farm products circulation and actively developing the farm products market, it is necessary to: Seriously sum up the successful reform experiences in buying and selling fruit, aquatic products, and vegetables; further search for a way to carry out reform of poultry eggs and pork circulation; develop horizontal ties between the place of production and the marketplace; combine operation, agriculture, commerce, and trade; and to improve various kinds of joint production and sales. State-run commercial enterprises must adopt a new organization pattern to stabilize the market and protect supply and to better play the role of main channel. Tianjin's experience in reform of the system for buying and selling grain should continue to be promoted; the provinces with better conditions can choose one or two counties to carry out a trial reform of the system of buying and selling grain; the national and regional grain wholesale markets in Zhengzhou and other places must be run well.

—Further develop the means of production market and production factors market. Commodities not suffering an acute conflict between supply and demand must be open and commodities which the state has clearly ordered to open must not be centralized again; direct orders between production enterprises and consumers should be encouraged, circulation links reduced, and circulation fees cut, and experiences in the pilot projects in the materials markets and materials enterprise groups in Liaoning and Suzhou City should be summed up. We must strengthen the organization and

construction of the production factors market. The key points are to develop the capital market, invigorate capital circulation, and actively develop the technology information market.

—Further reform of state-run commercial enterprises and materials enterprises. To change the enterprise mechanism, the main point is not to rely on state loans, or the increase in the plans of mandatory commodities and materials, but to face the market, to enhance the vigor of state-run commercial enterprises and materials enterprises during market competition. In a planned manner, we must promote Chongqing City's experience in the "four invigorations" in the areas of "operation, price, distribution, and employment," implement and expand the self-determination right in operation in state-run commercial enterprises and supply and marketing enterprises.

—Strengthen market management and step up supervision and management of taxation, industry, and commerce. Promote the experiences of Wuhan and Kunming in separating collection, management, and inspection of taxes, and Shenyang's Shenhe District's experience in building the revenue assistance and protection system.

—When improving circulation system reform and developing the market system, we must base ourselves on the central government's policy, actively and steadily carry out reform of the price-forming mechanism and price management system, and allow the market mechanism to play a bigger role.

—We must implement the self-determination right in foreign trade operation in enterprises. The large- and medium-sized enterprises with better conditions should be granted more self-determination rights in foreign trade to encourage them to explore the international market and to industriously develop the export-oriented economy.

### **Change city government's role in economic management and strengthen indirect regulation and control.**

To invigorate enterprises and develop the market, we must change the city government's role in economic management and uphold the principles of separating government and enterprises, and of appropriate separation between ownership right and operation right, to meet the development needs of the socialist commodity economy. When a city government manages the economy, it must uphold the principle of relying mainly on indirect regulation and control and must not intervene in the enterprises' daily operation activities. It must protect the enterprise's full self-determination rights in operation and enable enterprises to face the market instead of facing the government. It must lift restrictions on operation and arouse the enterprise's enthusiasm for technological advancement and production development.



Changes in the city government's economic role must first begin by making further changes in concept. Enterprises are not subordinates of government departments but independent commodity producers and operators with corporate status. The relations between government and enterprises are not like those between "mother-in-law and daughter-in-law" but are relations between administration and economic entities. The reform can first begin with the departments responsible for specific management. Then, we may encourage comprehensive economic management departments to change management styles and methods, as well as streamlining organization and control arrangements and increase efficiency. Various cities may look at their own conditions, do some research work, make efforts to straighten out relations between the government and enterprises, and between government departments, and explore and build a management system which separates the duties of government from the duties of enterprises and which relies mainly on indirect regulation and control.

#### **Bold Practice; Different Guidance for Different Tasks; Development of New Situation**

The 1990's is a crucial historical period for building socialism with Chinese characteristics, and for realizing the second-step strategic goal of economic and social development. To invigorate our country's economy, to bring prosperity to socialist undertakings, and to solve the deep-structure conflict in economic development, we must increase reform. The practice of reform in our country enables people to clearly see that the four cardinal principles are the foundation for building the country and reform and opening up is the road to a strong nation. On the premise of upholding the four cardinal principles, we must further expedite the pace of reform and opening up. Under this condition, the cities carrying out pilot projects must continue to develop the spirit of courageous exploration, emancipate minds, search boldly for progress, and develop a new situation in urban reform pilot projects during the new period.

#### **First, we must further understand the important position and function of urban reform.**

Cities are socioeconomic and political centers; modernized cities are the homes of modernized productive forces and the hubs linking commodity production to commodity exchange. They reflect the direction of development of social productive forces. The cities in our country have a very important position in national economic and social development. According to statistics, as of the end of 1990, our country had 467 cities, of which 168 were large or medium. The total industrial output value and GNP of the cities accounted for 70 percent of the country's totals; the backbone of large- and medium-sized enterprises owned by the whole people are basically concentrated in large and medium cities. Of our country's financial income, 80 percent comes from cities. Cities are the bases for important scientific and technological research, cultural and educational centers, and for developing high- and new-tech industries. In 58

big cities alone, 60 percent of our country's higher learning institutes and scientific research organizations can be found, as well as 50

of our natural scientists and technicians. At present, the 27 high- and new-tech industrial development zones approved by the State Council are all in these big cities. In the 1980's, cities played an important role in realizing the first doubling of the GNP; in the 1990's, to realize the strategic goal of redoubling the GNP, it is very crucial to pay attention to the role of cities and to develop that role to enable the development of the urban economy to move onto the next stage.

The importance of cities in the national economy determines the important position and function of urban reform in the whole reform. After 12 years of reform, in our rural areas, the new economic operation mechanism and management system basically occupy the dominant position. However, in cities, the traditional highly centralized planned economic system and habitual forces have not basically changed and are still restraining the development of various functions of cities. This affects further liberation of the productive forces and a sustained, stable, and coordinated development of the national economy. The Third Plenary Session of the 11th CPC Central Committee fixed the direction of reform which is aimed at the development of socialist commodity economy; the Seventh Plenary Session of the 13th CPC Central Committee further proposed explicitly that, in the 1990's, we must build a new system of socialist planned commodity economy and a new economic operation mechanism which integrates the planned economy with market regulation. As long as we can get through to the big and medium cities which have the greatest effect on the overall situation of the national economy and help them cast off the restraints of the old system and the difficulties arising from the dual system, as well as make new progress in exploring and building a new system and a new operation mechanism, we will have within our reach the crucial point of reform and development and will stimulate economic development and deepening of reform in the whole country.

#### **Second, we must further emancipate our minds, change our concepts, and strengthen the sense of exploration and spirit of innovation.**

During the next decade, in the course of building a new system and a new mechanism of economic operation, the cities carrying out pilot projects will have important duties. Although we have acquired experience in reform and opening up over the past 12 years, due to the fact that the reform has already entered the phase of tackling deep structural conflicts and of implementing changes in mechanisms, we have to properly handle the relations between reform, development, and stability as well as expedite the reform. Along with economic and social development and the deepening of reform, many new problems and conflicts will emerge—and there are many "realms of necessity" which we still do not understand. All these require persistent adherence to the basic line of

"one center, two basic points," serious study of Marxism-Leninism-Mao Zedong Thought and Deng Xiaoping's work, a firm grasp of the socialist direction of reform, further emancipation of our minds and a change in our concept, and further development of the spirit of bold and courageous exploration and continuous innovation. When the time is ripe—with the reform measures which are in accordance with the central government's principle and policy and which are capable of promoting the development of social productive forces—we should not hesitate, wait, or glance to the right and the left. We should concentrate our strength and advance courageously. As some comrades have said: "Even a mayor has to walk forward with courage." In particular, it is hoped that some interior cities, especially old cities with heavy industry, can act like the coastal open cities and create new experiences in organically integrating the plan and the market in future reform.

**Third, strengthen leadership, give different guidance for different things, and promptly sum up and publicize successful experiences from various localities.**

Comrade Jiang Zemin pointed out: "Socialist reform must be carried out under party leadership and in a planned and systematic way." Strengthening leadership over urban reform pilot projects and developing the active and positive spirit of courageous exploration are both necessary and mutually supplementary. The party committees and governments of cities carrying out pilot projects should strengthen leadership over reform and opening up, while the commissions (offices) for economic restructuring at various levels should strengthen coordination and guidance for the various reforms, solve the actual problems in the course of implementing pilot projects, and promptly discover typical models and sum up experiences. We should promote the experiences in pilot projects which have been proved successful by practice in a timely manner. Cities carrying out pilot projects should seek guidance from provincial party committees and governments; they should seek instructions from the State Council, report to the State Council, and fight for its understanding, support, and assistance.

Different localities have different characteristics and levels of economic development, and their economic structures are also different. Therefore, the various cities should proceed from their own actual conditions, develop their own strong points, match measures to local conditions, emphasize different aspects, and explore the concrete reform measures in their own places. As far as the whole country is concerned, the State Commission for Economic Restructuring should further strengthen links with various provinces, cities, autonomous regions, and separately listed cities; it should emphasize important points, give different guidance for different things, raise different demands for the pilot projects in different cities, and form a new pattern of pilot projects each having distinct characteristics:

1. The Zhujiang Delta, Changjiang Delta, and other economically developed areas can learn and promote the

experiences acquired by Suzhou, Wuxi, and Changzhou, and carry out regional, comprehensive, and coordinated reform pilot projects centering on exploration of the organic integration of the plan and the market and on changing the enterprise operation mechanism and government administrative function.

2. Special economic zones, open coastal areas, and the cities carrying out pilot projects along the Chang Jiang can learn from the experiences of Guangzhou and Dalian; they should promote reform and opening up simultaneously, actively develop the export-oriented economy, encourage enterprises to explore international and domestic markets, step up technological transformation in old enterprises, adjust the structure, and improve returns.

3. The interior cities carrying out pilot projects can select a number of large and medium enterprises owned by the entire people to seek efficient ways to run the public ownership system and grant them more self-determination rights in production and operation. They should actively develop the market system and carry out comprehensive and coordinated reforms.

4. The frontier cities with minority nationalities can consider local conditions when implementing the "Autonomous Law for the Areas of Minority Nationalities." They should further adjust the socioeconomic structure, strengthen cooperation with the interior, and explore and carry out pilot projects which meet the needs of opening up both to the interior and to the outside world.

5. Continue implementing some unitary reform pilot projects. For example, actively sum up the experience in the pilot project of separating profit from tax in Chongqing and Xiamen, to better implement and expand the pilot project, with reference to Shanghai's idea of separating profit and tax after accomplishing the first round of contracting. Continue to implement the pilot project in the taxes distributing and rationing system carried out in five provinces and three cities, steadily run the comprehensive and coordinated pilot project in reform of the shareholding system with shares issued to the public in Shenzhen and Shanghai, choose one or two high- and new-tech industrial development zones to launch pilot projects in shareholding systems among high- and new-tech enterprises and in risk investment systems, actively expand and deepen pilot projects in the reforms of revenue collection and management, care for the aged, unemployment, health and social welfare, state assets management, and of the system of cost accounting among enterprises; and actively promote housing reform.

6. The 14 separately listed cities must seriously sum up experiences and continually improve the separately listed cities system. They should further study the unresolved problems in the current separately listed cities system, straighten out the economic relations between them and the provinces, define the position and function

of separately listed cities in the economic management system, and strive for progress. The abovementioned pilot projects or aspects are not isolated, on the contrary, they are mutually linked. For example, the explorations and experiments to be done by the first type of region can also be done by other cities. Similarly, the second type of region will not only engage in export-oriented economy—and other types of regions will also be able to develop the economy of export-oriented enterprises.

To conclude, we must further emancipate our minds, define goals, strengthen the sense of urgency for reform and opening up, and resolutely walk the road of the socialist planned commodity economy. We will create a new situation in reform pilot projects during the 1990's.

## PROVINCIAL

### Jiangxi To Reduce Government Planning on Output

OW/901041592 Beijing XINHUA in English  
0323 GMT 19 Jan 92

[Text] Nanchang, January 19 (XINHUA)—East China's Jiangxi Province is going to lift its control on the production of more industrial products this year, in a bid to guarantee the smooth implementation of the policy for combining economic planning and market regulation.

Meanwhile, enterprises will be granted a bigger right to decide what to produce and how much to produce, in accordance with the demand on the market.

By the end of last year, industrial products covered by the province's overall plan had been reduced to 30 kinds from the more than 120 in 1979. The proportion of the output value of the products under state plan to the province's total industrial output value declined to 11 percent from the former 60 percent. The ratio is expected to be reduced to 10 percent this year.

Products including rolled steel, cement and tyre will see reduction in terms of their production quotas set by the provincial government. And that for soda ash is completely canceled.

### Hebei Economic Work Arrangements Reported

SK2701003592 Shijiazhuang HEBEI RIBAO  
in Chinese 16 Dec 91 pp 1, 2

[By Kong Fandou (1313 4709 2435) and Wang Bingwei (3769 0365 0251): "Strengthen the Position of Agriculture as the Foundation, Strive for a Comprehensive Bumper Harvest in Agriculture, Readjust Structure, Increase Efficiency, and Successfully Run Large and Medium-Sized State Enterprises"]

[Excerpt] The provincial meeting of prefectural commissioners and city mayors, held from 14 to 15 December, studied and arranged for the 1992 provincial economic

work. The meeting pointed out that the general guiding ideology for economic work is: Comprehensively implement the party's basic line, focus on economic construction, continuously carry out the strategy of "invigorating Hebei through science and technology" by closely centering on structural readjustment and increasing efficiency, and vigorously promote scientific and technological progress, continue to deepen the economic structural reform, and open still wider to the outside world, strive to increase the comprehensive agricultural production capacity and reap a comprehensive bumper harvest in agriculture, concentrate on running large and medium-sized state enterprises and positively developing township collective enterprises, and energetically broaden circulation channels, make great efforts to develop tertiary industries, and further promote the sustained, steady, and coordinated development of the national economy.

Provincial governor Cheng Weigan presided over the meeting, vice governors Song Shuhua, Zhang Runshen, Guo Hongqi, Gu Erxiong, and Wang Youhui attended the meeting. Gu Erxiong made a speech on further accelerating the development of township enterprises.

The commissioners and mayors participating in the meeting maintained that attention should be paid to the following 10 items of work by centering on next year's economic construction: 1. We should actually strengthen the position of agriculture as the foundation and strive for a comprehensive bumper harvest in agriculture. We should continue to deepen rural reform and conscientiously implement the party's rural policies. We should strengthen the concept of, and enhance the ability of, preventing and resisting natural calamities. We should continue to increase input in agriculture and successfully carry out comprehensive agricultural development. We should rapidly popularize and apply all kinds of technology applicable to agriculture, continue to make overall planning for agriculture, science, and education, and successfully build the scientific and technological service popularization system. 2. We should concentrate on running large and medium-sized state enterprises, beginning with changing mechanisms. Outside of enterprises, we should conscientiously implement the "Law on Enterprises," further rationalize the relationship between government and enterprises, and help and supervise enterprises to fully use various policies to manage themselves well. We should continue to check "arbitrary financial collections" to lighten enterprises' burdens. Within enterprises, we should emphasize further changing enterprises' internal management mechanisms and strengthening the building of leading bodies of enterprises. We should persistently perfect the contracted management responsibility system, accelerate the changing of enterprises' managerial mechanisms, using both incentives and restrictions and strengthen the restriction mechanism to make enterprises assume responsibility for losses as well as profits. We should make great efforts in promoting the supportive reforms inside enterprises and bring about maximum vitality and



vigor to enterprises. 3. We should promote structural readjustment in a down-to-earth manner and strive to increase economic efficiency. We should readjust the adaptability, production scale, development orientation, and development strategy of different categories of products. We should emphasize developing new products and upgrading and updating old products. We should focus on carrying out technological transformation in some medium-sized and small enterprises, undertaking a number of key capital construction projects and technological transformation projects covered by the state plan, signing contracts for and building some joint ventures involving foreign investment, initiating some export-oriented enterprises, and closing, suspending, merging, and transferring enterprises that have no possibility of halting their deficits. 4. We should reasonably increase investment in fixed assets and strive to strengthen momentum of economic development. In the course of continuously strengthening construction of such basic industries and facilities as agriculture, energy resources, transportation, communication, and scarce raw materials, we should further increase investment in intensive processing of products, high-grade items, and items that are technologically progressive. 5. We should enthusiastically support and energetically develop township enterprises and urban collective enterprises. We should seize on the favorable opportunity of relatively relaxed economic environment and persist in simultaneously developing enterprises run by townships, villages, combined households, and families. We should emphatically develop township and village collective enterprises, positively guide the development of the peasant joint-stock cooperative enterprises, and continue to encourage the development of family-run and combined household-run enterprises. 6. We should accelerate the circulation of goods and vigorously develop tertiary industries. We should persist in the basic direction of transforming the existing commodity circulation system into an open and multi-channel system, with more shapes and fewer intermediate links. We should also make great efforts to establish an open, smooth, flexible, and highly efficient circulation system which can be regulated and controlled. We should not fail to grasp the building of a market infrastructure, cultivate and develop the market system, and energetically develop tertiary industries. 7. We should firmly and unswervingly expand the scale of opening to the outside world and strive to increase the overall efficiency of opening up. We should uphold the principles of combining the economy with trade, bringing along the economy with trade, promoting trade in the economy, and simultaneously developing foreign economic relations and trade. We should emphasize exports, foreign exchange earnings, and utilization of foreign capital, positively develop an export-oriented economy, and go all out to increase the overall efficiency of opening to the outside world. 8. We should firmly grasp the work of financial and banking sectors and make these sectors fully exploit their role in serving, supporting, and supervising economic construction. 9. We should successfully combine science and technology education with the economy, and fully utilize science

and technology's role as primary productive forces. 10. We should firmly and unremittingly grasp family-planning work, to bring population growth under strict control. (passage omitted)

## Shaanxi Active in Interprovincial Cooperation

### Four Provinces Cooperation Exchange Held

92CE01844 Xian SHAANXI RIBAO in Chinese  
24 Oct 91 p 1

[Report by Ren Zhongnan (0117 0022 0589) Yang Jian (2799 0494), and Wang Xiaopeng (3769 2556 7720): "Regional Cooperation Between Neighboring Prefectures and Municipalities in Hubei, Henan, Sichuan, Shaanxi—Sixth Interchange Conference Opened in Ankang"]

[Text] On 23 October, the city of Ankang—an important city in what in olden times used to be called the area of Qin and Ba in the territory of Jinzhou—now gorgeously decked out and decorated, was invaded by a flood of visitors at the solemn opening of the Sixth Conference on Economic, Technological, Materials, and Cultural Interchanges Between Neighboring Prefectures and Municipalities in Hubei, Henan, Sichuan, and Shaanxi.

A few days ago, Chen Junsheng (7115 0193 3932), state counselor and head of the State Council's leading team for economic development of impoverished regions, personally wrote a dedication for the Ankang Prefecture and for the "sixth interchange conference" of the cooperative region which read: "Persist in reform and opening up, enhance economic cooperation—open up the mountainous regions of Qin and Ba, develop the economy of Ankang."

Since 1986, participation in the "region for economic and technological cooperation of neighboring prefectures and municipalities in the provinces of Hubei, Henan, Sichuan, and Shaanxi" has risen to 11 parties, comprising four provinces and nine prefectures and municipalities. This is due to the natural direction in the flow of commodities and the macroeconomic demand posed by the technological development of the Ankang region and nearby prefectures and municipalities. It is also due to the continuous advocacy for organization and participation in the "cooperative region," a region which will uphold the principles of "publicizing one's special capabilities and avoiding shortcomings found elsewhere, maintaining mutual equality and the voluntary nature of everyone's actions, reciprocity and mutual benefits, and commonly shared development," as well as the pursuit of the two civilizations. Activities of the cooperative region have developed from opening roads for better circulation to comprehensive cooperation and interchange in the fields of economics, technology, information, materials, qualified personnel, labor, banking, taxation, communications, statistics, and cultural affairs. The development was precisely from a situation that had "the government putting up the stage on which

the enterprises had to perform" to the continuous intensification and development of horizontal ties and cooperation between enterprises and also of regional cooperation. The total amount of successive transactions has been 3.427 billion yuan, and 400 projects are under discussion, giving strong impetus to the economic and cultural development and to the prosperity of the mountainous districts of the Qin and Ba regions.

This is the first time that the Ankang fair is being held on so large a scale. The "interchange conference," with its multi-faceted activities, is the first time such a grand gathering has been held in Shaanxi Province since the formation of the cooperative region. Apart from all the members and organizers of the cooperative region, the conference was attended by specially invited delegates from the relevant cities and counties of Hanzhong and Longnan prefectures and of Suzhou and Nantong cities, and also by delegates from such provinces, municipalities, and autonomous regions as Beijing, Shanghai, Tianjin, Hubei, Jiangsu, Qinghai, and Xinjiang. Altogether, almost 3,000 official delegates attended. In order to fully publicize the superiority of Ankang prefecture in the pharmaceutical and chemical lines, and also to further open up and put to use this the country's second-ranking pharmaceutical treasure-house, Ankang prefecture, as the party chairing the conference, newly opened a pharmaceutical market. The prefecture also established a further nine large specialized markets for business negotiations and retail sales of consumer goods, capital goods, items of science and technology, and concerning banking, professional personnel, labor, education and art projects. The labor market added a combined exhibition and sales department, showing and offering for sale products of the labor service enterprise. The money market broadened its activities in the field of direct short-term loans and started trading in securities. As to the projects under negotiation, these negotiations will be rendered even more substantial with intensified exchanges of information and mutually supplementary investigations. As a consequence, the entire "interchange conference" will be even better qualified to "do a real job" and "go out for substantial results" in an outstanding way.

#### Huang He Provinces Meeting

92CE0184B Xi'an SHAANXI RIBAO in Chinese  
22 Oct 91 p 1

[Report by Hu Meiyu (5170 5019 1342): "Leadership of Eight Provinces and Autonomous Regions Jointly Discuss a Comprehensive Plan for Developing the Huang He Basin—The Fourth Conference of the Huang He Economic Cooperative Zone Opens at Xi'an; Zhang Boxing, Zhao Yannian, Liu Chunmao, Zheng Silin Attended"]

[Text] Leading comrades of the governments of eight provinces and autonomous regions along the Huang He, and leading comrades of relevant departments—in all

over 120 persons—met as delegates to the Fourth Conference of Leading Cadres from Provinces and Autonomous Regions of the Huang He Economic Cooperative Zone, held from 18 to 20 October in the old city of Xi'an. They were to jointly deliberate on a comprehensive plan for the economic development of the Huang He zone. The conference was chaired by Shaanxi Province this time.

Zhang Boxing (1728 0514 5281), secretary of the Shaanxi CPC Committee, presided at the opening of the conference. Liu Chunmao (0491 2504 5399), provincial vice governor, chaired the closing session. Zheng Silin (6774 2448 2651), provincial vice governor, addressed the conference at the opening and at the closing session, and Zhao Yannian (6392 1693 1628), vice minister of the State Nationalities Affairs Commission, also attended the conference.

The Huang He basin is the birthplace of the Chinese nation and brought forth the brilliant civilization of ancient China. To fully assert the advantages of the area's abundant surface and underground resources, to accelerate the area's opening-up, and to develop the region's economy, eight provinces and autonomous regions (Shandong, Henan, Shanxi, Shaanxi, Inner Mongolia, Gansu, Qinghai, and Ningxia), following the State Council's strategic plan and proposal for regional cooperation, established a regional economic organization, the Huang He Economic Cooperation Zone, in July 1988. In the past three years all of these provinces and autonomous regions worked very hard at expanding their economic and technological cooperation, and indeed achieved remarkable results. Statistics show that by the end of this September, 2,750 economic and technological cooperative projects had been worked out, involving materials cooperation worth 3.7 billion yuan, commodity transactions involving over 1.8 billion yuan, mutual loans involving over 800 million yuan, and the interchange of professional personnel involved over 7,000 person-times. In addition, in order to launch further vigorous activities, they set up conferences for 12 lines of trade; these were namely for light industry, machine building, textiles, commerce, metallurgy, war industry, foreign economic relations and trade, social sciences, aquatic production, chemical industry, agriculture, science and technology.

The present meeting, which was hosted by Shaanxi Province this time, discussed and approved the "1991 Work Report," which was submitted by Shanxi Province, the host of the last conference. It also deliberated and passed the "Outline of an Overall Plan for Economic and Technological Cooperation of the Huang He Economic Cooperation Zone During the Eighth 5-Year Plan and for the Next 10 Years," which was compiled by Shandong Province, and the "Proposals for Accelerated Science and Technology Development in the Zone," which had been drafted by Shaanxi Province. After reviewing the achievements and experiences of the last year, and taking the two important aforementioned

documents as the base, the conference studied and discussed its major tasks during the coming year.

The conference stated that all the provinces and autonomous regions will continue to adhere to the principles of "equality and mutual benefit, honest and sincere cooperation, supplementing others where own superiority allows, and commonly shared development." It believed that all should energetically develop economic and technological exchange and cooperation on projects in many fields, at many levels, and in many forms, promote optimal organization of the elements of production and rationalization of the economic structure, accelerate the development of the old, underpopulated, impoverished border regions, and improve macroeconomic results and the developmental level of the productive forces in the cooperative zone. The conference decided that the cooperative zone will adopt "science and technology will bring prosperity to the zone" as its motto for the coming year, to make scientific and technological cooperation the core of its activities, to bring the advantages of science and technology fully into play, and have the economic development of the cooperative zone truly rely on scientific and technological progress. The conference pointed out that it is necessary to continue to enhance cooperation within particular lines of trade, and stressed the importance of establishing large-scale transprovincial and transregional enterprise conglomerates, with several large and medium-sized enterprises as mainstay, and leading on with certain well-renowned and superior products. The focus of support shall be on certain cooperative projects of great impact. Projects that are presently in operation or that have already been decided upon are: a modern fish meal plant, operated and jointly financed by the cooperative zone in Shandong Province, a planned bridge over the Huang He, at a point where the provinces of Shanxi, Shaanxi, and Henan meet, and a cotton-growing base of a million mu of land along the Huang He and Tantu rivers. These projects must be organized and coordinated as quickly as possible in order to achieve the earliest possible results. There was also an intention to continue to use the ports on the eastern sea board and make a success of the Qingdao Trade Fair, to use the "passage" through Inner Mongolia to develop trade with the Soviet Union, and to use the "bridge" of ethnic minorities in Ningxia, Qinghai, and Gansu to develop trade with Arab countries. At the same time, there is an intention to successfully arrange many types of trade fairs within the cooperative zone itself, to enliven commodity circulation and the exchange of materials. The conference also passed a resolution to organize conferences of the banking trade and of the pharmaceutical trade in the cooperative zone, and also a resolution to admit the Huang He Conservancy Commission as an official member of the cooperative zone.

#### Jiangsu-Shaanxi Cadre Exchange

92CEDIR4C Xi'an SHAANXI RIBAO in Chinese  
21 Oct 91 p 2

[By Cui Zongshan (1508 1350 1472) of the Jiangsu Provincial Radio Station: "Supplementing Others

Where One's Own Superiority Allows—Interchange Between the Cadres of Jiangsu and Shaanxi Stimulate Economic Development in Both Provinces"]

[Text] The interchange between cadres between the provinces of Jiangsu and Shaanxi has benefited both sides and has stimulated economic and technological cooperation between the two provinces to develop in a variety of fields and in greater depth.

A certain casting plant in Kunshan County of Jiangsu Province had constantly deteriorating economic results due to high consumption of electricity which caused high operating costs. In Langao County, Shaanxi Province, on the other hand, electricity costs were comparatively low. Through interchanges between cadres on both sides it was decided to effect "supplementing others where own superiority allows," and Kunshan transferred the casting plant to Langao County. It was calculated that every year it saved electricity costs of 20 million kwh as compared with operations at Kunshan. It could then also realize bonus payments, with both sides being very satisfied with the arrangement. There are presently as many as 150 similar projects which have been agreed upon or which are already in operation.

The interchanges have also resulted in earlier project cooperation developing into cooperation between enterprises. At present, 15 enterprises in Ankang City have found partners for cooperation in Changshu City, Jiangsu Province. Cadre Zhao Jianguo, who came to Hanyin County, Shaanxi, from Jiangsu Province, had formerly been the head of a certain township in Zhangjiagang City. As a go-between in building a bridge between the two localities, he had 295 technical cadres and workers of Hanyin County go to Zhangjiagang City for study and training. Ningxia County also helped a factory in Taicang, Jiangsu Province, to establish a marketing outlet in the old city of Xi'an.

[The following continuation is reported by Li Youmin (2621 0147 3046)] The 73 cadres, who went from Shaanxi to Jiangsu on a work-study program, have been working for three months. They had to overcome unaccustomed living conditions, floods caused by heavy rainfall, and difficulties with language and feelings. By enthusiastically and effectively immersing themselves in study and work, they have achieved very good results.

This group of work-study cadres left Xi'an in May of this year, and after a term of intensive instructions in Jiangsu, they were dispatched to various counterpart countries for investigation, study, and work. Statistics show that up to the end of August they had been to 749 townships, towns, and villages, investigating and examining 2,321 enterprises of various ranks and kinds. When the torrential rains of a few days ago caused a disaster in Jiangsu, the Shaanxi work-study cadres enthusiastically participated in flood relief. They obtained relief supplies and money to the value of about 2.5 million yuan from Shaanxi Province and from its prefectures and counties. As to economic cooperation, thanks to efforts on both



sides, agreements have actually been reached on 150 of the 261 projects that had been projected. The Jiangyang Shipping Company and Xixiang County have agreed on a joint project for developing marble quarrying, and Linyou County has signed a contract to supply 60 tons of amylin to Zhenjiang. The Shaanxi work-study cadres have also exerted great effort in developing markets for both sides. The 750,000-yuan shipment of goods from Shangnan County to Lohui County in Jiangsu was immediately sold out. The trial shipment of 106 types of medicinal materials from Ankang Prefecture to the cities of Suzhou and Nantong looks good, and a direct supply line is being organized. Zhangjiagang City and Changzhou and other counties have opened markets in counterpart prefectures and counties of Shaanxi Province. Through recommendations, Shaanxi Province presently has 417 township party and government cadres, enterprise managers, and workers undergoing training in Jiangsu. Out of 15 enterprise managers from Ankang City, 13 have found partners for cooperation during their period of investigation and study in Changshu City.

## FINANCE, BANKING

### 1990 Balance of Payments Situation Improves

92P30100Z Beijing JINRONG SHIBAO in Chinese  
10 Dec 91 p 1

[Text] Beijing, 9 December—This reporter recently learned from the State Foreign Exchange Administration that China's international balance of payments situation in 1990 changed significantly. According to the "1990 International Balance of Payments Table" made public today, the 1989 current account deficit of \$4.3 billion became a surplus of nearly \$12 billion in 1990; on the capital account, net capital inflow fell from \$3.7 billion in 1989 to \$3.26 billion; and reserve assets increased \$11.14 billion. On the current account there was a trade surplus of \$9.16 billion, compared with the \$5.62 billion deficit of 1989. Non-trade net income was \$2.56 billion, an increase of \$1.64 billion over 1989; uncompensated transfer net income was \$270 million. On the capital account, long-term capital inflow was \$6.45 billion, while short-term net outflow was \$3.19 billion.

Authoritative sources point to several key reasons for this relative easing of China's international balance of payments situation in 1990:

Exports increased rapidly. Exports amounted to \$51.52 billion in 1990, an increase of 19.2 percent over 1989. This growth was largely due to the resolving of many export commodities' domestic and foreign sales contradictions during rectification and readjustment's reigning in of overheated demand. Structural reform of the foreign trade system strengthened the system whereby enterprises are responsible for their own profits and losses, and the quality of exports clearly improved while the export commodity mix was further improved.

Foreign-invested enterprise exports grew by a huge amount; at \$7.81 billion, they increased 58.9 percent over 1989. The world economy continued its slow growth, and demand for China's exports in several countries was quite large.

Imports decreased. Imports in 1990 were valued at \$42.35 billion, down 13.3 percent from 1989. The major reasons for this are several Western countries imposed economic sanctions on China, restricting the scope of commercial technology made available to China, hi-tech equipment in particular; domestically, readjustment of the economic structure temporarily reduced demand for imports; and, adjustments in the RMB exchange rate reigned in overheated import demand to a certain extent.

The tourist industry rebounded relatively quickly. Foreign exchange income from tourism increased significantly in 1990, totalling \$2.218 billion, a 19.2-percent increase over 1989, and 98.7 percent of the record level set in 1988.

Foreign direct investment continued to increase. Foreign direct investment totalled \$3.49 billion in 1990, the third consecutive year it exceeded \$3 billion, and the third consecutive year that it increased over the previous year.

Reserve assets grew. By the end of 1990 China's foreign exchange reserves stood at \$28.59 billion, an increase of \$11.58 billion over 1989; 1989's reserves had fallen \$527 million from 1988. Of this \$28.59 billion, the state's foreign exchange balance was \$11.09 billion; the Bank of China's \$17.5 billion. The state's total reserve assets increased \$11.14 billion in 1990.

In addition, several specialized Chinese banks expanded foreign exchange business in 1990, bringing about significant changes in the composition of China's international balance of payments. For this reason, the date of publication of this year's [as published] international balance of payments table is later than in past years.

## INDUSTRY

### Ethylene Projects To Double Output

HK1001093092 Beijing CHINA DAILY in English  
30 Jan 92 p 2

[By staff reporter: "Warning on Rush for Ethylene"]

[Text] The short supply of ethylene in China has prompted an investment rush into the sector, but a senior expert in the petrochemical industry is calling on local investors to look before they leap.

Local enterprises involved in the investment rush have applied for permission to construct 34 ethylene projects. They are competing with the two major national petrochemical industry magnates—the China Petrochemical Industry Corporation and the Ministry of Chemical

Industry—who have already decided on a blueprint to build 12 ethylene projects in the coming five years.

Their massive investment plan is a response to a massive demand for ethylene, used in chemical manufacturing. Ethylene output in the country is adequate to meet only half of the demand, and a yearly average of \$4.5 billion has been spent importing ethylene in the past five years.

Construction of the 12 ethylene projects are expected to be completed by 1995 and the country's ethylene output will double to 4 million tons then.

As the State's key petrochemical projects, the 12 ethylene projects will be carried out with guaranteed investment funds, construction materials and raw materials for production.

Using petroleum and natural gas as raw materials, the 34 local ethylene projects will find themselves at a disadvantage compared to State ethylene enterprises, the expert pointed out.

Statistics show that China expects to increase the petroleum and natural gas output by a total of three to five million tons in the coming five years, while the estimated increase of yearly demand for petroleum and natural gas during that time will top five million tons.

The local ethylene enterprises cannot afford to depend on importing raw materials, he added.

Investment funds are another concern. Construction funds needed for the 34 ethylene projects will be astronomical. One ethylene factory with a yearly production capacity of 300,000 tons would entail 8 billion yuan (\$1.48 billion) just to purchase equipment, he said.

"It will be hard for any local enterprises to raise such big funds," he warned.

### Harsh Measures Proposed To Reduce Textile Glut

92CE0247R Beijing JINGJI GONGZUO TONGXUN  
[ECONOMIC WORK NEWSLETTER] in Chinese  
No. 20, 31 Oct 91 pp 2-4

[Article by Wu Wenying (0702 2429 5391), minister of the Ministry of Textile Industry: "Make a Concerted Effort to Fight the Textile Industry Campaign to Limit Production and Reduce Inventories"]

[Text] The Ministry of Textile Industry must do the following in order to fully implement the "State Council Circular Notice on Strictly Controlling Enterprise Production of Products Already in Oversupply" throughout the textile industry, and to implement instructions from State Council leading comrades and the spirit of the National Cotton Work Conference on controlling total output and reducing inventory in the textile industry so as to free working capital. To accomplish this, it will be necessary to mobilize forces throughout society to support and assist textile firms in fulfilling their task of

limiting output to reduce inventories. Acting on instructions from State Council leading comrades, the State Council Production Office, the State Planning Committee, and the Ministry of Textiles held a textile industry telephone conference in Beijing. On behalf of the Ministry of Textile Industry, I made a few remarks on pertinent problems in limiting output to reduce inventories.

### 1. Further Unification of Thinking and Heightening of Understanding For Resolute Control of Total Textile Output and Reduction of Inventories.

State Council leaders have recently pointed out on several occasions that the top priority of the moment in the textile industry is strict control over total output to reduce the amount of merchandise in inventory. Limiting production to reduce inventories is no expedient measure, but rather a major policy action that has a bearing on the national economy as a whole and on the textile industry's new turn toward healthy development. Regardless of whether we are talking about improving the competitiveness of China's textiles in international markets, or about readjusting the product mix in order to better meet needs resulting from changes in domestic market consumption, we are confronted with an urgent need to limit production to reduce inventories. We must further unify thinking and heighten understanding to fully comprehend the importance and urgency of limiting output to reduce inventories. We must resolve to control total textile output, reduce inventories of finished goods, reduce excessive accumulation in warehouses, and reduce the amount of working capital that is tied up in order to increase economic returns.

By way of passing along the spirit of the National Cotton Work Conference, the Ministry of Textile Industry convened a special meeting of department and bureau directors and handed down specific quotas, limiting output to reduce inventories for all textile firms. Judging from the situation in August, however, enforcement in all jurisdictions has been far from ideal. Some jurisdictions are continuing to mindless overproduce, even as inventories continue to grow and products languish in stockrooms. Statistics for society as a whole from January through August show a 10.9-percent increase in output of cotton yarn over the same period in 1990, with six cotton-producing provinces and regions accounting for 93 percent of the excess output. Unless output is limited, the excess output for the year as a whole will be even larger. This is a very serious problem. The overly high output of cotton yarn is one of the reasons for overstocking of cotton cloth, knit goods, reproductions, and even clothing. Meanwhile, textile product inventories are continuing to mount.

In order to realize this year's goal of limiting output to reduce inventories, we have decided to take the following actions:

First, production must be strictly controlled in accordance with annual cotton yarn production plans, and production

*in excess of the plan must be strictly curtailed.* The six major cotton-producing areas, in particular, must think of every possible way, adopt a resolute attitude, and take resolute actions to control cotton yarn output within the limits of the annual plan. Jurisdictions that do not fulfill their production limitation quotas during 1991 will have to cut back 1992 production plans by an amount equal to 1991's excess output, and their supplies of raw materials, particularly cotton and chemical fibers, will be reduced. Areas making shipments will increase the amount shipped, areas receiving shipments will reduce the amount received. (sentence as published)

*Second, vigorous action must be taken to resolutely reduce warehouse inventories.* All jurisdictions must unwaveringly fulfill their inventory reduction quotas. The State Council has already decided on a policy that links inventory reduction to the granting of credit. The money freed by reducing inventories is to be used for technological transformation, and those who reduce inventories may use the money. If an enterprise increases its inventory reduction quotas instead of fulfilling them, the funds to be used for more warehouse storage are to be deducted from the amount of funds available for technological transformation the following year, and cutbacks must be made in investments for technological transformation.

*Third, resolute action must be taken to strictly control enterprises that continue producing goods that have accumulated in inventory.* Enterprises which produce products that accumulate in inventory must be restructured, their production of slow-selling products must be controlled, and the production of such products must be halted. Products that accumulate in inventory, and enterprises that allow this to occur, must be categorized, enterprises that continue to produce slow-selling products that pile up in inventory will have their electric power, raw materials, and credit suspended in order to force them to halt production or to carry out a phased production halt and reorganization. All textile enterprises are to base production on sales, strictly guarding against a recurrence of accumulations in inventory. Enterprises that are losing money must be ranked; the reasons must be analyzed, and remedies must be found. Economic methods and administrative actions must be taken to eliminate those enterprises that have been losing money for a long time and that have no hope of turning their losses around. This will involve closing them, halting their production, merging them, or shifting them into other lines.

*Fourth, output limitation quotas for inventory reduction must be broken down and assigned to individual enterprises to build a target responsibility system throughout society which includes not only the textile system, but also textile enterprises in the township, supply and marketing, trade, economic relations and trade, and agricultural reclamation systems as well.* This will require governments at all levels to conduct overall planning which takes all relevant factors into account, and to take specific action to put quotas in place in each trade and

industry. Each firm will have to draw up plans for enterprises to use in establishing a clear-cut target responsibility system in which strict checks are carried out. Textile industry departments and bureaus in all jurisdictions are to make regular monthly summary reports to the Ministry of Textile Industry, noting the status of the effort to limit output to reduce inventories. By way of doing a good job in limiting output and reducing inventories, all jurisdictions must implement closures, production halts, mergers, or shifts to other lines as each individual situation warrants. They must also use such methods as reducing the speed of machinery, cutting the number of shifts, scheduling inspections and maintenance, and conducting technical training. Inventory reduction is by no means the ultimate objective. Deliverance lies in developing readily marketable new products and transforming old products to effectively satisfy market demand and improve economic returns. Therefore, limiting of output and reducing inventories must be done in conjunction with readjustments of the product mix. While resolutely reducing inventories, new products should be actively developed as market demand requires, with new varieties, colors, and styles added. Inventory reduction and increasing sales should be linked to enlivening commodity circulation and paying firm attention to commodity circulation in order to expand textile sales, thereby easing overall contradictions.

The State Council Production Office, the State Statistical Committee, and the Ministry of Textile Industry will organize a joint survey team to look into the status of enforcement of production limitations and inventory reduction in all jurisdictions, commending good performance, putting poor performers on notice and criticizing them, and dealing with serious problems.

## **2. Stringent Regulation and Control of Cotton-Spinning and Wool-Spinning Production Capacity, Intensifying Control Over Chemical Fiber Production Capacity, and Limiting Mindless Increases in Total Output of Textiles**

An aggregate imbalance exists today in China's textile products. Accumulating inventories of large amounts of textiles and a decline in economic returns of the industry as a whole are very much related to the headlong increase in textile processing capabilities of recent years. Solution to this problem requires multiple, concurrent actions, including developing raw materials, opening markets, controlling capacity, cutbacks in scale, and improving technological equipment and production technology. A conspicuous problem today is the need to decisively and rigorously regulate and control the headlong development and extension at a low level of the three major capacities—namely cotton spinning, wool spinning, and chemical fiber raw materials and silk reeling production. After this is done, the blind increase in total output of textiles can be limited.

First, we must implement an "investment permit" system for the "three major capacities" in textiles. All capital construction and technological transformation



projects to increase the "three major capacities" will be subjected to approval by the Ministry of Textile Industry, and no "investment permit" will be issued for any unapproved project. Here I must reiterate that during the Eighth Five-Year Plan there is to be no increase in cotton-spinning capacity. There must be unified thinking and understanding on this main principle. Even those portions of previously approved projects on which construction has not yet begun must be halted.

Second, we must institute a "production permit" system for textile machinery enterprises that produce cotton-spinning, wool-spinning, and chemical fiber equipment, with the permits centrally issued and controlled by the Ministry of Textile Industry. No production of such equipment is to be permitted without a permit. Enterprises that produce it without a permit are not to be provided bank credit. Textile machinery production enterprises must sign contracts to supply equipment against project-specified examination and approval documents, and fixed capital "investment permits." Capital construction and technological transformation projects lacking an "investment permit" are not to be provided equipment. If an enterprise is found producing equipment without a permit or providing equipment without a permit, its permit to produce such equipment is to be revoked. Textile machinery equipment manufacturing plants must take into account the overall situation on this issue. They must view the whole country as a large chessboard. In today's circumstances, the interests of some enterprises have to be sacrificed in order to protect the interests of the country as a whole; the interests of a part must be sacrificed to safeguard the interests of the whole.

Third, there must be strict control over imports of the "three major capacities." Projects that have not received Ministry of Textile Industry approval, have not been approved in accordance with examination and approval authority and procedures, or that do not have an "investment permit" may not be imported.

Fourth, all plans for producing textile machinery equipment must immediately halt production of equipment types whose elimination has been announced. No textile plant may take old, outdated equipment that it has replaced and sell it elsewhere. It must dismantle the equipment within a certain period and scrap it locally. All jurisdictions must enforce a strict system for supervising the sale of such equipment.

Fifth, cotton-spinning processing capacity must be restructured, with emphasis placed on restructuring the headlong development of yarn plants outside plan. All jurisdictions are to resolutely implement quotas from leading comrades in the State Council, and conduct checks in accordance with the seven criteria for inventorying and restructuring promulgated by the Ministry of Textile Industry. Any jurisdiction not meeting any of the seven criteria must halt production for restructuring and meet the criteria within a fixed period. Enterprises

whose technological equipment is antiquated, whose products continue to accumulate in inventory, whose economic returns are poor, and that shows serious losses must be eliminated in accordance with economic rules and regulations; they must either shift to other lines of production, close, or halt production. Enterprises that use fine-yarn machinery removed from old plants, or enterprises that use eliminated equipment that they purchased after it was announced that such equipment was to be eliminated, must immediately stop using the equipment in production. They must resolutely dismantle and scrap the equipment locally, no matter what the plant's subordination, the nature of its projects, or its investment channels.

In short, total textile output is to be controlled through limits on production capacity. This is a means of curing the problem at its source. Units in charge of textiles at all levels must devote serious attention to this problem, take it firmly in hand, and produce real results.

### 3. Acceleration of Technological Transformation, Readjustment of the Product Mix, and Active Opening of New Markets for Textiles

One important reason for the current accumulation of textile inventories is that certain products are not readily marketable. The mass of consumers do not want them. Our limitation of production to reduce inventories does not mean that we are against further development of the textile industry. It is a way to get rid of a burden in order to be able to develop at a higher technical and technological level, developing in the direction of newer and better product grades. Therefore, limiting production to reduce inventories must be carried out in conjunction with technological advances, development of new products, and the opening of new markets. Today, the equipment in use in China's textile industry is universally antiquated. It is a very long way from advanced world levels. This hurts the overall level of China's textiles and the improvement of quality. We are presently unable to produce numerous products that the international and the domestic market want, or else we may be able to make trial runs of small lots but cannot satisfy market demand. Many enterprises want to do in-depth or finer processing, yet although they have the desire, they do not have the ability. All this shows that China's textile industry is urgently in need of technological progress and technological transformation on a large scale. In 1991, the state decided to "link inventory reduction to credit issues," using funds gained from inventory reduction to increase the amount of credit available for technological transformation, and for a corresponding increase in the portion of discounted loans. This is a major technological transformation policy. In addition, limiting production to reduce inventories also provides us a favorable opportunity to carry out technological transformation. We must seize the opportunity and use policy to do overall planning. With support from governments at all levels, and under guidance of state industrial policy, we must do overall planning, widen our avenues of thinking, and do everything possible to use various channels and

different methods to raise money to increase investment in technological progress. We must do a good job of selecting the proper projects for technological transformation and make the right choices in project orientation, using the markets as a guide and products as a key for carrying out transformation in a coordinated process. We must use transformation to bring about a rise in the technological level and to advance to a new level, to improve the grade of products to increase their international market competitiveness, and to meet changes in demand in the domestic market. The textile industry can thereby free itself from its present predicament and enter a benign cycle.

While moving ahead with the technological transformation of firms and enterprises, all jurisdictions should slant policies somewhat to favor key large and medium-sized enterprises. This will enable them to become powerful mainstay enterprises capable of spurring the vigorous building of the entire textile industry. These policies should be used in conjunction with the structural readjustment of the textile industry to promote a rational policy of gradualism. We should accelerate the technological transformation of old textile bases, such as Shanghai, Qingdao, and Tianjin, as well as coastal export-producing enterprises, thereby enabling them to move ahead in the direction of high technology, high-level production, high-grade production, and developing an export orientation as quickly as possible. They must emphasize development of high-quality, sophisticated, precision, fully-processed, and new products that are at a higher level of technology, in order to improve the market share of such products in international markets and increase foreign exchange earnings through exports.

#### **4. Diligently Strengthen Leadership To Ensure Fulfillment of the Task of Limiting Production To Reduce Inventories**

Not much remains of this year. Fulfilling the task of limiting production to reduce inventories is an extremely daunting task for the textile industry. Units in charge of textiles at all levels, particularly leading comrades at all levels, must assume responsibility for a genuine strengthening of leadership, painstaking organization, planning that takes all factors into consideration, and coordinating actions. They must be sure to fulfill all tasks in limiting output to reduce inventories, in controlling capacity, in restructuring headlong development, and in accelerating scientific and technological progress and technological transformation. They must devote firm attention to studying and formulating various specific measures, they must put them into practice at once, implement them one by one, and conduct a full examination at year's end. They must further emancipate thinking, change ideas and pursue a guiding policy of "making the market one's orientation and taking economic returns as the central motif" during the course of "controlling, reducing, and restructuring," and make fullest use of the positive role of market regulation. They must put an end to any methods and reasons for suppressing enterprises' output value and speed, and guard

against the creation of new inventory stockpiles. While limiting production to reduce inventories, commodity flow must be studied, given serious attention, and enlivened, new markets steadily stimulated, and new marketing areas steadily opened up. Production and commodities must be developed in coordination, in order to advance both. This is an important way to solve the overall output imbalance, structural imbalances, and the market slump. It is also an objective necessity for organizing industry's ultimate escape from a predicament to realize sustained, steady, and coordinated development. In this connection, work in several regards must be given attention: First, take the market as the orientation, take increase in economic returns as the central motif, and hasten readjustment of the product mix. All jurisdictions must conscientiously implement the spirit of the All-China Textile Design Personnel Congress to fully arouse and use the enthusiasm and creativity of design personnel to develop improved product designs. Second, greatly study the textile marketing system and market organization to develop more diverse business methods and various channels for commodity flow. Attention must be given to stimulating the enthusiasm of sales personnel to increase product sales. Real efforts must be made to make the textile market boom more and be more vigorous. Third, we need to put more energy into the study of international markets. When exporting to international markets, active efforts must be made to export products that sell for high prices, that sell in large quantities, and that have great potential. Although the export prices of some products are not high, products should be exported on the principle that no loss will be incurred following tax rebates. Fourth, there is a need to do more in building the industry's own sales corps so as to further expand sales volume. We must devote maximum effort to ease conflicts in aggregate textile products so as to create a fine climate for further developing the textile industry.

Organizing the industry to limit output to reduce inventories is one important aspect of the state's overall actions in readjusting the economic structure. It is an extremely important problem that has a bearing on the national economy and on numerous sectors, including agriculture, commerce, and foreign trade. Sole reliance on leading units at every level in the textile industry is not enough. What is needed is leadership and support from all quarters, particularly from ministries and commissions of the State Council, provincial, autonomous region, directly administered municipality people's governments, and comprehensive departments. Work must be carried out level by level under the centralized leadership and centralized action of all provincial, autonomous region, and directly administered municipal governments. We hope that provincial and municipal leaders will be extremely concerned about and devote special attention to this task, personally take charge of it, perform it rigorously, and do it well. Textile industry units in charge at all levels should actively win over the support leaders of governments at all levels, taking the initiative to provide reports, request instructions, and

actively and diligently do a good job in all regards. At the same time, more political ideology work must be done. Attention must be given to real problems in placing in jobs the staff members and workers of enterprises that have halted or shifted production, so as to both resolutely complete the task and ensure social stability.

The task of limiting output to reduce inventories in the textile industry is an extremely daunting one, and difficulties abound. Nevertheless, we believe that only if we make concerted efforts in all regards and from top to bottom, rally spirit, overcome fears of difficulties, and strictly enforce orders and prohibitions under leadership and guidance of the State Council, the textile industry will certainly win victory in the campaign to limit production to reduce inventories.

## SMALL-SCALE ENTERPRISES

### Report on Rural Enterprises in Eastern Provinces

#### Enhanced Quality, Technology

92CED2584 Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 4 Dec 91 p 1

[Article by Liu Peifang "Developing Hi-Tech Products Becomes New Pursuit Under New Situation"]

[Text] After going through 10 years of reform and opening up and three years of rectification and reorganization, after standing the test of big development and big contraction, town and township enterprises in eastern China are entering, with a completely new attitude, a new phase with emphasis on improvement.

As concrete expressions of this, producing hi-tech products has become the new trend of eastern China town and township enterprises to survive and develop under the new situation. The export-oriented economy is pushing the technologies of eastern China town and township enterprises to higher levels, and their products and enterprises to higher grades. There have been tangible achievements in raising enterprise quality to narrow gradually the gap between township enterprises and state enterprises.

For township enterprises, to be wedded to hi-tech was something rather inconceivable just a few years ago. As the quality of township enterprises improves all round, the number of well-trained workers gradually increases, the technical capability continues to improve, and the pace of equipment upgrading is accelerated. Seeking high economic and social benefits with hi-tech industries has become the new trend for eastern China township enterprises to survive and to develop under the new situation of intense competition.

A plastic auxiliary developed by Zibo Plastic Auxiliary Plant in Shandong was a research project that a state-level department had undertaken for years without result. The research personnel of Zibo Plastic Auxiliary

Plant and Shengli Oil Field joined forces to tackle the problem and obtained success, thus breaking the technological blockade of Western countries. Tertiary-amine produced by Yixing City Chemical Plant in Jiangsu is also a product that more than 10 large and middle-sized enterprises in the country had failed to produce despite large expense and years of effort. Refrigerators produced by Jiangyin City Lithium Bromide Refrigerator Plant not only lead in the country, their main characteristic parameters exceed those of Mitsubishi products.

Eastern China township enterprises recognized that hi-tech is the key to current international and domestic market competitiveness, that to develop hi-tech products is a must and that if one recognizes this problem early, one is able to take the initiative.

Bringing the advantage of local resources into full play, participating in international cooperation and exchange, and using the preferential policies of opening up, has enabled enterprises in the process of direct participation in international competition to improve their quality and accelerate their development. These have become a definite trend for town and township enterprises in the six provinces and one municipality of eastern China.

Developing the export-oriented economy has become the motive force to bring the technologies of eastern China township enterprises to higher levels, their products and enterprises to higher grades, and an important way to solve the problem of sources of funds and raw materials in the development of township enterprises. For the first half of this year, in only four eastern coastal provinces and one municipality, the export delivered value reached 16.6 billion yuan, accounting for 65 percent of the export delivered value of township enterprises in the whole country.

Enhancing further the degree of export orientation, stressing continued improvement in "quality" while expanding "quantity" the export-oriented economy of township enterprises, actively using funds, advanced technologies and equipment to accelerate the technological transformation of enterprises so that the township enterprises can export to earn foreign exchange and can gradually shift to higher grades and higher quality. Encouraging qualified township enterprises to build plants in foreign countries, to organize labor service export, to establish marketing network in foreign countries, or to develop export bases within the country, these are the irreversible general trend of the development of eastern China township enterprises. Although up to the early part of the 1990's, the development of township enterprises has obtained unexpected achievements, there are still problems of technical backwardness, obsolete equipment, shortage of qualified personnel and weaknesses of poor management, low product quality and low return, when compared with large state enterprises. During the three years of rectification and reorganization, eastern China township enterprises have put in efforts in internal matters, strengthening worker training, paying attention to basic management works,



financial affairs, accounting, statistics, measurement, norm system etc., with the aim of raising product quality and reducing material waste, thus enhancing overall enterprise quality. They have obtained tangible results in gradually reducing the gap with state enterprises by organically uniting their mechanism of flexibility with the scientific management of big industry.

In the transition of eastern China township enterprises from the phase of big development into the new phase of big improvement, the environment of relaxed policies has an extremely important effect. The leaders of Jiangsu, Shandong, Zhejiang, Fujian provinces have all put forward this year a policy of strengthening large- and medium-sized state enterprises as well as township enterprises and the provincial party committees and governments have also drawn up supporting measures aimed at existing problems of provincial township enterprises. Although these provincial supporting measures are all within the latitude permitted by state policies, they all have very important effects on the continued reform of township enterprises, development of export-oriented economy, promotion of scientific and technical progress, tiding over the funding crisis, alleviation of tax burden, clearing circulation channels, and protection of legal rights etc.

#### Impact After Flood

92CE0258B Beijing ZHONGGUO XIANGZHEN QIYE  
BAO in Chinese 2 Dec 91 p 1

[Text] Despite major floods, the seven provinces and municipality of eastern China still show strength, and their township enterprises continue to maintain leading favorable positions. These seven provinces and municipality are the "Golden Triangle" of China's township enterprises. Here, the total output value of township enterprises accounts for 46 percent of the whole country's. The total output value of township industries is 53 percent of the whole country's. The export delivered value is 64 percent. It has always been said that township enterprises look to eastern China.

This year eastern China had heavy floods. There is concern about township enterprises after the floods. Recently, the second township enterprise investigation and study working conference of the seven provinces and municipality took place in Tai'an, Shandong. According to information provided by the conference, Jiangsu, Shandong and Zhejiang, competing with each other, continue to lead the whole country. From January to September, the township industrial output value of the three provinces reached respectively 105.9, 84.68, and 70 billion yuan, with respective increases of 24.7, 30, 36 percent over last year, and continue to lead the whole country. Especially in Jiangsu, the industrial output value reached 14.7 billion yuan in June, the highest level ever; in July, it dropped to 8.2 billion yuan because of the floods, but in September, it bounced back to 13.4 billion yuan, fully displaying their economic strength. What is most gratifying is that speed and benefit

increased in locked steps, the over 80,000 village industrial enterprises of the province realized in the first half of the year a profit-tax of 3 billion yuan, a 33.7 percent increase over the same period last year. In a year of major calamity the key to why healthy development continued without a decrease in momentum, was paying attention to structural readjustment, not just readjustment of production structure, but also readjustment of raw material structure and product market structure. In the area of technical transformation, based on the actual situation, the provinces have emphasized conserving energy, reducing raw material consumption, reducing production cost and raising product quality. It is estimated that by the end of the year, the total output value of township industries of Jiangsu could exceed 140 million yuan, far ahead of other provinces and municipality.

Township enterprises in Shandong achieved, from January to September a total output value of 106.4 billion yuan, an increase of 29.3 percent over last year, sales proceeds, profits, and taxes increased respectively by 32.22, 65 and 28.29 percent, ranking second in the country. The 3,000 km coastline is the geographic advantage of Shandong for its breakthrough development of export-oriented economy. In the second step of development, internally strengthening technical progress, worker training, business management, and by raising quality, grade, level and scale to heighten the quality and economic efficiency of enterprises, has been the driving force in the development of township enterprises in Shandong. By the end of the year, the total output value may exceed 110 billion yuan.

Township industries in Zhejiang have shown great strength. From January to September, 11 city and districts of Zhejiang had output value increases ranging from a low of 22.5 percent to a high of 52.8 percent, and economic efficiency also increased. From January to August, the taxes turned over by industrial enterprises at village level and above increased by 35.9 percent, labor productivity increased by 27.8 percent, enterprise profits increased by 62.84 percent, and the turn-around time of fixed amount revolving funds has been shortened to 16 days. To enhance the reserve strength of development, the province invested 1.8 billion yuan in a technical transformation fund in eight months, exceeding the investment level during all of last year. Technical transformation projects were large in scale and had high starting points. At present, the province is paying attention to four tasks: promoting lateral ties, developing enterprise colonies, encouraging enterprise mergers, organizing enterprise groups, and is taking an approach toward larger scale management to gain new economic superiority.

Shanghai and Fujian have their own advantage. The momentum of their development is expected to be good. The most salient feature of Shanghai rural industries is the clear acceleration of technical progress. In the 250 technical transformation projects of nine counties and one district of Shanghai, 700 million yuan has been

invested, among them 20 projects are already listed in the plan of the Municipal Economic Commission. It is planned that 2.9 billion yuan will be invested in industry for the whole suburban county during the Eighth Five-Year Plan to implement 3,000 large technical improvement projects.

In Fujian, the export-oriented economy is developing very fast, the rate of increase being the highest in east China. The recently concluded provincial committee working conference stressed specially that the coastal region be directed toward exports that earn foreign exchange, by making full use of its advantageous conditions of opening up, having many Chinese interests coming from overseas, Hong Kong and Taiwan, and having quick access to information, by insisting on the principle of "going ahead with large, medium, small projects all at once," by attracting foreign investments from many directions and in various forms, so that township enterprises gradually get on the track of export-oriented economy.

Anhui and Jiangxi have weaker bases, but they are working hard to catch up. Anhui suffered great losses in the floods, but the total output value of township enterprises from January to September still reached a good result of 25.77 billion yuan, an increase of 12.8 percent over the same period last year. After the flood, to enhance reserve strength, the province has put in 1.8 billion yuan in loans, which exceeds the total last year.

In Jiangxi, after readjustment in the last two years, township enterprises have gotten out of the slump, and achieved increases in speed and efficiency. In supporting the development of township enterprises, all provincial departments have been very realistic. This year, the various provincial departments such as financial affairs, banks, economic commission, planning commission, and personnel, all have done concrete things to support township enterprises, and have had a warming up effect on the development of township enterprises.

## FOREIGN TRADE, INVESTMENT

### Lessons From Foreign Compensation Claim Case

92CE0117A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No. 10, 30 Oct 91 pp 27-31

[Article by Wang Chengbin (3769 2110 2430), Tianjin Academy of Foreign Trade: "Lessons Drawn from Case Involving Foreign Claim for Compensation"]

[Text] Since the Third Plenary Session of the 11th CPC Central Committee, China has formulated and promulgated more than 400 economic laws and regulations dealing with foreign economic relations. As a result, a body of laws in this area has begun to take shape, the legal environment for opening up has been improved, and the development of foreign economic relations and trade has been spurred forward. The problem now is not

that there is a lack of laws, but that they are being flouted. In the practice of foreign trade, it is common to stress actual business activities and pay little heed to laws. People are used to thinking only of business activities, but they are not accustomed to considering the concomitant legal issues. Because people have no concept of law, economic losses that could be avoided are frequently incurred.

### I. A Case Involving a Foreign Claim for Compensation

A compensation claim involving caramelized walnuts, one of the most unusually large trade claims to take place in recent years, is a classic example of the emphasis on business activities and the inattention to law. In March 1986 a Chinese corporation signed an export contract to sell 250 tons of caramelized walnuts to a West German company (hereafter referred to as the client). The contract included clear stipulations regarding price, packaging, delivery date, and form of payment, but there was no provision regarding quality; the only requirement was that the product carry a seal of approval from a Chinese commodity inspection agency. Although the Chinese corporation understood that the walnuts would be used to make ice cream, there was no agreement in this regard. For the resolution of disputes, the contract stipulated that arbitration would be provided by the Foreign Economic Relations and Trade Arbitration Commission of the China International Commission for the Promotion of Trade, which is located in Beijing. The caramelized walnuts were delivered to Hamburg in two shipments, in June and July of 1986. After the shipments arrived, the client felt that there were problems with quality (some of the caramelized walnuts were dark in color, and some had been burnt) which would make the nuts inappropriate for ice cream. The client demanded that the Chinese corporation dispatch someone to inspect the goods, and stated that they would file a suit in the Stuttgart District Court in the Federal Republic of Germany. When threatened with a lawsuit, instead of invoking the arbitration clause in the contract, the Chinese corporation chose the weak and ineffective method of pleading with the client to drop the suit, arguing that a lawsuit "would only increase either your expenses or ours." This not only failed to exert pressure upon the client, but actually put the Chinese corporation on the defensive. As everyone knows, when a contract provides for arbitration, the courts have no jurisdiction; in particular, filing suit in a court located in the Federal Republic of Germany is neither legal nor possible. If the court knew of such an arbitration clause, it would not accept a case like this. When the dispute arose, the only recourse was to go to arbitration in China. When the Chinese corporation forgot to use this basic legal recourse, it was made to look like the offender, when in fact it had done nothing wrong. This happened because the company stressed only actual business activities and was inattentive to legal issues.

The client demanded that the Chinese corporation compensate them for 75 percent of the cost of 141 tons of caramelized walnuts, or about 630,000 West German

marks. After negotiation, a price reduction, rather than compensation, was agreed upon, and the amount was reduced from 75 to 30.53 percent. Thus the Chinese corporation's goal of reducing compensation was achieved.

However, it is worth looking into whether the reason for the client's claim to compensation was legally valid. The fundamental reason for the claim was that the goods supplied by the Chinese corporation did not suit the purpose for which they were intended (making ice cream). This could be considered a breach of contract under both continental law and the common law of Britain and the United States, the legal consequences of which would be severe. Furthermore, Article 18 of China's Contract Law for Foreign Economic Relations also stipulates that when one party to a contract does not fulfill its responsibilities as specified in the contract, the other party has the right to make claim for compensation. However, the Chinese corporation and the client did not stipulate in the contract that the walnuts had to be "suitable for making ice cream," so breach of contract was not an issue. On the contrary, the Chinese corporation acted in good faith from the start, using its traditional method of production and delivering the goods according to the terms mutually agreed upon. It acted in accordance with legal requirements. In the past the client had never protested the quality of the product; it had an ulterior motive in claiming this time that the walnuts were not good enough to use in ice cream. As it turns out, the client had a similar relationship in China with another supplier, from whom the client had received an inexpensive, light-colored product. For this reason, the client picked a quarrel over quality to achieve the dual objective of freeing itself of the goods delivered by the Chinese corporation and, at the same time, obtaining compensation.

Because the client had another supplier and did not carry out the contract it had made with the Chinese corporation, it violated the fundamental principle of good faith. The Chinese corporation should have acted upon the applicable law—Article 18 in China's Contract Law for Foreign Economic Relations—and requested arbitration by the Foreign Economic Relations and Trade Arbitration Commission of the China International Commission for the Promotion of Trade. The Chinese corporation should have held the client to its responsibilities in order to protect its rightful interests. The reason the client gave for claiming compensation was not legally valid. Of course, considering the fact that the West German company was an old client, and in view of the fact that a small portion of the walnuts had been burnt, the Chinese corporation, in accordance with the principle of mutual benefit, could have yielded by making a small compensation, but the Chinese corporation would have had to clarify that it was doing so as a favor to the client, and not because it was required to do so.

We can use this case to illustrate some problems which still exist in our legal work in foreign economic relations and trade.

## II. Problems in Our Legal Work in Foreign Economic Relations and Trade

People generally acknowledge that law is very important in foreign economic relations and trade, and that it plays a role that must not be overlooked. In foreign trade schools, law has been classified as one of "the six basic specialties." Many specialized foreign-trade corporations have set up a law section (office) or put a specific person in charge of legal matters. From an overall perspective, however, legal work in foreign economic relations and trade is still rather weak, and it is no longer rare for a dispute in foreign economic relations and trade to lead to economic losses because our side cannot keep up in the area of legal work. This is the crux of the issue. The problem manifests itself in many ways. We must be aware of the ways in which the problem appears, and we must also search for ways to resolve it.

### A. Problems Related to the Utilization of Law

1. Insufficient mastery of fundamental legal knowledge and inexpert utilization of the law is a major problem. Some people feel that an understanding of the import-export business and international commercial law is sufficient for carrying out foreign trade, so their knowledge is relatively narrow and unsuited to the demands of their work. Others feel that if you do not pay special attention to business activities, you will not earn much foreign exchange, and you will be punished. They go on working without an understanding of law; in their minds business activities and law are placed in two entirely separate categories. Some people have no access to information. They do not know the things they ought to—not even the fact that the United Nations Treaty for the International Sale of Goods is now in force in China, much less the fact that there are now 17 nations participating in the Hamburg Regulations, with three more on the way. When one does not know about international treaties, one will have problems in utilizing law. Such are the problems facing us. Ideological obstacles and insufficient mastery of basic legal knowledge can easily lead to mistakes. International economic relations and trade are complex and broad in scope, and the international economic laws governing them include international trade law, international investment law, international technology transfer law, international currency and banking law, international transportation law, international tax law, etc. In addition, there is also international precedent. Only after we have thoroughly familiarized ourselves with all of these areas will we stand on solid ground as we work to resolve disputes.

2. In handling contract disputes, legal issues are overlooked. Contracts involving foreigners, including those to do with buying and selling merchandise, inevitably involve legal issues. Cautious people, in order to prevent a dispute developing into legal difficulties, generally include an applicable law clause or a legal choice clause in the contract; these are generally termed the primary clauses. With these primary clauses, once a dispute arises, there is a legal basis by which to guide dispute



resolution. In the past, China avoided the applicable law issue; it would not think about the resolution of disputes until one had actually arisen, which was a very reactive stance. As foreign economic relations and trade continually develop, it will be impossible to do our work well if we continue ignoring this issue. For this reason, China's Contract Law for Foreign Economic Relations and Trade sets out five principles regarding applicable law. Although these principles are not detailed or complete enough, they do provide a legal foundation. With respect to the caramelized walnuts case, the contract was made and executed in China, and according to Regulation Number 5 of the Contract Law for Foreign Economic Relations and Trade, China's law is the law most closely connected with the contract. Thus even if the two parties had not specified in the contract what law would govern the contract, the applicable law would still be China's. What is more, the contract specified that arbitration would be carried out in Beijing, so naturally the applicable law would be China's,—e.g., the Contract Law for Foreign Economic Relations and Trade. This is completely natural. Because this was the only applicable law for the contract, disputes could only be arbitrated on the basis of this applicable law; thus, it would not have been possible to file a lawsuit in West Germany, much less possible to take West German law as the applicable law. It is understandable that different applicable laws could lead to different outcomes. Using China's Contract Law for Foreign Economic Relations and Trade as the applicable law could lead to an outcome favorable to the Chinese party, so the issue of applicable law cannot be taken lightly. It is best to have an applicable law clause in the contract so as to reduce disputes. It would be an inexcusable error to attempt to "settle things in private" when such a clause is included in the contract.

3. Another problem is that when a contract has no provisions regarding a specific issue, we are not good at utilizing flexible clauses in the law. There are some fundamental principles which have gained universal acceptance. In civil law these include good faith, public order, and good customs. In international economic law they include sovereignty, free trade, equality, mutual benefit, and non-discrimination. These principles are flexible, and can be termed flexible clauses in the law. Under certain circumstances, especially when a contract has no provision regarding a specific issue, one can generally achieve a favorable outcome by selectively using these clauses to distinguish between the true and false. With respect to the caramelized walnut case, the contract had no provision regarding quality because it was not comprehensive enough, so there was a margin of flexibility for resolving the dispute. When clauses are missing from a contract or are unclear, using the flexible clauses in the law can enable one to change from a reactive to a proactive position, thereby averting trouble. In the caramelized walnuts case, by examining the client's statements and excuses, investigating the facts, and zeroing in on the key points, one could ascertain that the other party's weakness lay in the fact that it did not act in good faith, while the Chinese corporation's greatest

strength, by contrast, was that it had been acting in good faith from the start. Using this advantage could have rendered a resolution more favorable to the Chinese corporation. Not only could it have switched from reactive to proactive tactics, but it may have been possible to avoid compensation altogether, instead of just reducing it.

### *B. Problems Related to Enforcing Laws*

The main problem with enforcing the law is that people flout the law, particularly where foreign-invested enterprises are involved.

1. The autonomy accorded by law to foreign-invested enterprises is not fully respected in some areas and sectors. It is reported that the Machine Building Department of the Hubei provincial government—without obtaining the consent of the board of directors of the Hubei Parker Seal Factory (a Sino-U.S. joint venture)—directed a subordinate agency, the Hubei Province Automobile Industry Corporation, to fire the manager (Chen Weizhen) and vice-manager of the joint venture. This elicited a strong protest from the U.S. partner, Parker Donovan Corporation. The Foreign Investment Bureau of the Ministry of Foreign Economic Relations and Trade sent a telegram to the Hubei Department of Foreign Economic Relations and Trade stating that it had violated the Joint Venture Act by infringing upon the autonomy of the joint venture. Only then did the Hubei Department of Foreign Economic Relations and Trade acknowledge its error. This was a fairly typical case. There is a similar phenomenon in which government regulatory agencies create a "Chinese leadership group" above the joint venture's board of directors. Some regulatory agencies, under the guise of "monitoring" or "inspections," even continually go to the foreign-invested enterprises to put the squeeze on them, perhaps by asking the enterprises to hire certain people or throw feasts. This adds to enterprise expenses and wastes the energy and time of enterprise leadership. Such practices do not help enterprises solve difficulties; they merely give enterprises needless headaches. These phenomena directly violate the Joint Venture Act and the principles in its implementation provisions, which require that government agencies provide "guidance, assistance, and oversight." They also violate the State Council's Regulations on Encouraging Foreign Investment, which require that every level of the people's government and the relevant regulatory agencies assure the autonomy of foreign-invested enterprises. The illegal and shady activities described above discourage foreign investment and make it difficult for China to utilize foreign funds.

2. Various phenomena (informal agreements which ignore the law, "concession wars," etc.) which sacrifice the interests of the state have yet to be eliminated. In order to attract foreign investment, some areas have resorted to press conferences and parties for foreign guests in which they compete to offer the most attractive concessions. The result is a sort of "concession war." Tax concessions are actually the sole province of the state

and should not be offered by individual areas or departments within the government. Yet some leaders often make glib promises when meeting foreign business people or making speeches, even waiving land use fees and income taxes for foreign personnel working in China. This practice of casually waiving legal requirements is very abnormal. It sullies the dignity of our nation's laws, undermines China's credibility, and forces foreign firms to take their investment elsewhere because they do not know where they stand in China. In reality, tax concessions are no magic bullet; they are of limited attraction. What foreign firms care about is how to get practical benefits; to which government they pay taxes is of no concern. If the investor's country and the host country only have a offsetting tax agreement, and not have a reciprocal tax agreement, then tax reductions obtained by the foreign firm in the host country must be made up for by the firm in its own country, so it still pays full taxes. The only benefit is that it is not subject to double taxation. If the investor's country and the host country have a reciprocal tax agreement, then the firm making the investment will not have to make up for these concessions in its own country; this is the only way tax concessions can be of benefit to the investor. China and the United States, for instance, have no reciprocal tax agreement, which explains why U.S. firms are indifferent to tax concessions in China. Thus, we should not think wishfully about such matters; it hurts the state, and does not benefit anyone else, either.

### III. Ways to Resolve these Problems

The situation is rather complex in terms of both enforcing and utilizing the law. There are many reasons for this, but in the final analysis the most fundamental reason is the tendency of people to stress business activities and pay little attention to the law. Business activities are stressed in the hope of making more foreign exchange. This cannot be criticized, but overlooking legal matters, which brings economic losses and runs counter to the goal of earning foreign exchange, is not good. People undoubtedly attach little importance to legal matters because lawsuits cost money, time, and energy. When disputes arise, they try their best to work around conflicts and settle matters privately. They might give compensation in overt or disguised form, or they might promise to make it up to the other party in the next transaction. These non-legal methods generally result in the Chinese party (the Chinese government, in reality) suffering major economic losses. Now that China has achieved the beginnings of a legal system for foreign economic relations and trade, failure to take advantage of existing laws is unacceptable. In order to assure effective implementation of laws governing foreign economic relations and trade, create a healthy legal environment which will attract foreign funds and develop foreign trade, and strengthen the weak links in our legal work, there are a number of measures we could consider, including:

1. In order to improve the quality of personnel engaged in foreign economic relations and trade, we should make

known the extreme importance of a basic understanding of international economic law, and materials on this subject should be made "required reading for cadres" whose work involves foreign trade. I would recommend that greater weight be given to international economic law (not just international commercial law) in tests of prospective export sales personnel. This area of knowledge should account for at least 20 percent of the points awarded in the area of economics and trade, so that people will be encouraged to attach importance to law. In order to closely integrate business activities and legal matters, and to assure that neither work nor study is neglected, we could consider spending one afternoon every week studying law. The basic format of this legal study would call for the various specialized corporations to organize courses for their export sales personnel. When necessary, they could bring in university law professors or lawyers experienced in foreign economic relations and trade to give special talks. The classes would deal with compensation claims as they arise during the regular course of work, and discussions would tie practice and theory together. People's ability to study law and use it in resolving actual problems would be improved.

2. We must make our government agencies more sound, deploy personnel, and strengthen the legal sections (offices) in specialized corporations. Everyone knows that legal and business matters must be closely integrated. Some specialized corporations have never set up a legal section (office), and their legal work lags behind the needs of business activities, which is a major cause of economic losses. I recommend that government agencies with the relevant authority clearly stipulate that most corporations which specialize in foreign trade, or other enterprises authorized to engage in foreign economic relations and trade, must set up a legal section (office); foreign trade enterprises which are relatively small, have few personnel, and do not yet meet the necessary conditions should still put a specific individual in charge of legal matters. The main task of the legal section (office) is to assist the manager with the corporation's legal matters. Its relationship with other departments in the corporation should be one of equality and cooperation. The cables and telegrams sent by other departments must be sent to the legal section (office) for comments before being forwarded to the manager for review and approval. Personnel from the legal section (office) should participate in any procedures involving negotiations with foreigners or contract signing. The legal section (office) is directly under the manager's leadership; it is the legal advisor and assistant to the manager. In daily operations, the legal section (office) should cooperate in a unified manner with other departments so that those departments will feel that they are being helped rather than hindered.

3. Lawyers should play a greater role in negotiations with foreigners to prevent and reduce errors in legal work. Specialized foreign trade corporations generally hire legal advisors, but they usually do not ask for their help

until a problem arises, which easily leads to errors. In the caramelized walnuts case, for example, if the Chinese corporation had sought a lawyer's advice in a timely manner after being threatened by the client's lawsuit, it would not have forgotten to invoke the arbitration clause. In negotiations with foreigners (particularly those involving large investments), one cannot do without a lawyer; his or her role must not be underestimated. Not only should lawyers be part of the negotiating team, they should also participate and provide legal assistance in project selection, project setup, economic and technical feasibility studies, negotiations, and contract signing. Practice has proven that a lawyer's participation can have a great impact on the final outcome. In one instance, a Chinese party was negotiating with a U.S. firm over a joint venture to build a large hotel in China. The U.S. firm asked for a clause stipulating, "This contract is subject to the jurisdiction of the laws of New York state." The Chinese party's lawyer pointed out that since the hotel was being built in China and the contract was being made and executed in China, according to international civil law, China's Contract Law for Foreign Economic Relations and Trade was most closely connected to the contract. Article 2 of that law states that Chinese law shall be applicable to Chinese-foreign joint venture contracts executed in China. If the contract in question were subject to the jurisdiction of the laws of New York state, it would have violated the law and infringed upon China's sovereignty; the Chinese party could not have accepted such a condition. The U.S. firm felt that the Chinese party was within its rights, so it dropped its position. If no lawyer had been involved, the unreasonable request by the U.S. firm would not have been argued against, and an error in legal principle could have been committed, so it is apparent that the role of lawyers cannot be overlooked. In another case—negotiations on a joint venture contract, a Dutch firm requested that, in addition to a 3 to 4 percent share of net sales as technology transfer compensation, it be paid an initial payment of \$300,000. The Dutch firm, however, was only going to invest \$200,000 in the joint venture factory. If such a contract had been signed, the Dutch firm would have made a profit of \$100,000 without investing a single dollar of its own. On the basis of the plan presented by the Dutch firm, our lawyer estimated that the firm would retain 750,000 renminbi per year, not including dividends. The lawyer stated that this was an unreasonable request, not based on the principle of equality and mutual benefit. Since the Dutch firm's request would have brought it "huge profits without investment," the Chinese side did not agree to it. After the lawyer argued the merits of the issue, the Dutch firm stopped insisting on its request and agreed to an equitable plan proposed by our side. It is apparent that lawyers frequently play a decisive role in negotiations; they are not someone you can do without. In negotiations, a lawyer is responsible only for legal issues and providing legal counsel. The lawyer's role is to assist the principal negotiator and to work together with other members (including engineers, accountants, etc.) in carrying out negotiations. Economic, technical, and legal

issues are generally all intertwined in joint venture negotiations. Lawyers should, under the leadership of the principal negotiator, work closely with other members to make the negotiating team a strong unit which will strive to preserve China's legal interests.

#### **Technology Trade With Japan Ends 4-Year S**

92P30072A Beijing GUOJI SHANGBAO in Chinese.  
5 Jan 92 p 1

[Summary] Sources from China's Ministry of Foreign Economic Relations and Trade (MOFERT) report that China signed contracts with Japan for technology imports "approaching \$1.6 billion" in 1991, thereby ending a four-year downward trend in "technology trade" between the two countries. A purchasing trip in November resulted in contracts valuing \$7 billion on technology, equipment, and construction equipment. Important contracts include a Beijing ethylene project, steel importing for special construction, and washing machines. Contracts through the end of July totalled \$770 million.

#### **China Largest Investor in Hong Kong**

92P30072C Beijing GUOJI SHANGBAO in Chinese  
19 Dec 91 p 1

[Summary] Reports from Chinese officials and foreign embassies show that in 1989 China's direct investments in Hong Kong totalled between \$9-10 billion. Meanwhile, Japan and the United States had direct investments totalling \$8 billion and \$9 billion, respectively. Chinese mainland investments range from industry to the finance and shipping sectors.

### **LABOR**

#### **QIUSHI Views Employee Work Styles**

HK0412125991 Beijing QIUSHI in Chinese No 20,  
16 Oct 91 pp 32-35

[By Gao Yi (7559 5030) and Deng Chundong (6772 4783 2639) of CPC Central Committee Policy Research Office: "Several Current Questions Which Must Be Solved To Enhance Role of Staff and Workers as Masters of Their Own Affairs—An Investigation of Situation in Some Enterprises"]

[Text] On how to implement the policy wholeheartedly relying on the working class in enterprises and bringing into full play the initiative of the staff and workers, we investigated some enterprises in Beijing and Liaoning, Jilin, and Shanxi Provinces. We felt that the policy of wholeheartedly relying on the working class forwarded by the CPC Central Committee had aroused the general attention of various localities, and some enterprises were carrying it out by setting up rules and regulations and various other measures. Viewed as a whole, some large state-owned enterprises did quite a good job, and had created some experiences, while most enterprises were



still lacking a set of effective mechanisms. Certain rules and regulations had been laid down in some enterprises, but they were not yet in normal operation. Therefore, to bring the initiative of the staff and workers into full play, emphasis should be put on solving problems in the following aspects within the enterprises:

### **I. Enterprise Leadership Should Correct Their Guiding Ideas, Improve Work Style**

The reason why some enterprises did quite a good job in operating by relying on the masses of the staff and workers was first of all: The leading cadres had a clear-cut understanding of the policy of wholeheartedly relying on the working class, was firm in attitude, and always looked upon wholeheartedly relying on the working class as upholding the enterprises' socialist direction. Their common features were: 1) The leading cadres were emotionally close to the workers. The Dalian Shipyard leadership declared that no matter what changes took place in the cadres' positions, their feelings toward the masses of the workers should never change. "Only when the leadership loves the workers will the workers love the enterprise." Comrade Li Qisheng, secretary of the Jilin Province Chemical Industry General Corporation CPC Committee, said: Under no circumstance should the "host" be left out in the cold; we should never let the staff and workers have the slightest dejected feeling." The Datong Mineral Bureau leadership always regarded "supporting the workers to be the masters and let the workers decide" as one of the guiding ideas of its work. 2) The leading cadres maintained close links with the masses of the workers. They are officials and yet without the airs of officials, and lead their men by example, "the cadres are always right in the forefront to do the hardest, most tiring, and most dangerous jobs." There is a rule in Dalian Shipyard: As long as there is only one worker working overtime, the workshop leadership must be at the site; as long as there is one workshop working overtime, the shipyard leadership must be at the site. Leading cadres at various levels of the Datong Mineral Bureau and its mines, districts, and teams have for many years persisted in joining regular shifts in the mines underground to maintain close links with the miners, which is stipulated by clear-cut regulations. 3) The interests and requirements of the broad masses of the workers, especially those in the production forefront were first taken into consideration in working out various policies and regulations, thus insisting on "adopting preferential measures toward the forefront."

But, many problems exist in the understanding and work style of the leading cadres of quite a number of enterprises, especially those of small enterprises. In a series of reforms in carrying out the factory director responsibility system and the contract system, some policies and measures are not coordinated, and not perfect, and moreover "capable men rule the factory" is unilaterally emphasized in mass media, and the status and role of the masses of the workers in the enterprises are neglected, all these result in the weakening of the ideas of some leaders on relying on the staff and workers in running the

enterprise and the growth of the concept of being hired on the part of the masses of the workers, thus widening the gap of ideas and feelings between the leaders and the masses. Some enterprises' leading cadres still believed up until now that relying wholeheartedly on the working class put forward by the CPC Central Committee was but a slogan stemmed from the need of political stability; while others were worried that if they talked much about respecting the workers' status as masters, it would affect the enterprise's scientific management. According to an investigation by a general trade union of a city, 58.8 percent of the staff and workers thought that their enterprises' leadership "thought of the staff and workers when in difficulty and forgot them when things went smoothly." The leadership of a small number of enterprises regarded themselves as "the bosses," and looked upon the workers as hired laborers, which led to a very tense relationship between them.

Therefore, to implement the policy of relying wholeheartedly on the working class to the grass-roots level, there should be a tremendous change in the enterprise leadership's ideas and work style. It is necessary to further do a good job in propaganda and education, to enable various levels of enterprise leadership to establish the materialist concept of history, and to have a clear-cut understanding of relying wholeheartedly on the working class. This is not only an important premise for correctly running socialist enterprises, but also the basic condition for maintaining the state political regime's nature and social stability and unity. In their day-to-day work, the enterprises' leaders should put themselves of their own accord in a correct position to the staff and workers, and should be clear that they are entrusted by them to run the enterprises. They should take good charge and correctly use power on their behalf in a highly responsible spirit, voluntarily accept their supervision, and handle well the relationship between scientific operation and management and relying on them to run well the enterprises. It is necessary to educate the leading cadres to further develop the CPC's fine work style in maintaining close links with the masses and hard struggle, and there should be definite requirements and stipulations in the management system for various levels of cadres in the enterprises to go deep among the masses and take part in labor.

### **II. Set Up and Improve Democratic Management System Within Enterprises, Bring Full Play to the Role of Staff Members' and Workers' Representative Assemblies**

The reason why the initiative of the masses of staff and workers in some enterprises was brought into better play was directly related to the good job done in the enterprises' democratic management. These enterprises' leadership believed that the production and operation and the reform in the leadership system should be conducive to the implementation of the policy of wholeheartedly relying on the working class. Under the guidance of such

an idea, they strived to achieve in democratic management the following. First, set up an amplified representative assembly system. Amplified representative assembly systems had been set up in the Jilin Province Chemical Industry General Corporation factories and workshops in units with over 200 people; representative assemblies had been set up at the team levels under the workshops, and a network of democratic management at four levels of teams, workshops, factories, and the corporation came into being. Second, to make the staff and workers representative assemblies effective in name and reality. The representative assemblies at various levels were held according to schedule in some advanced enterprises, and annual plans, major production operations, and matters related to the interests of the staff and workers were discussed and decided by the representative assemblies at the same levels. After 1985, the Datong Mineral Bureau held 10 meetings of four representative assemblies of the staff and workers; 42 major policies were discussed, reviewed, and decided at those meetings. The Jilin Chemical Industry General Corporation staff and workers representative assembly examined once every half a year the work and honest performance of the corporation's cadres at various levels, and the comments made were of importance to the cadres' promotion, degrading, stay, or dismissal. The Datong Mineral Bureau stipulated that the enterprises' wages and bonuses shall not become valid unless signed by the staff and workers representative assemblies.

However, there are still a number of enterprises which have not yet set up staff and workers representative assemblies. According to statistics of a city at the end of last year, of all the grass-roots level enterprises and undertakings which should set up staff and workers representative assemblies, only 76.4 percent have done so. And even in those enterprises that have set up representative assemblies, some exist in name only but not in reality. According to investigation, only 20 percent of that city's staff and workers representative assemblies play quite a good role, 60 percent a fair role, and 20 percent a bad role. The report from various localities in general shows that of all the representative assemblies' powers, those of democratic election and supervision are the most difficult to implement. In one city, the right to democratic election was not implemented in 76 percent of the enterprises.

In view of this situation, while emphasis is laid on establishing a system of staff and workers representative assemblies, it is necessary to ensure its powers in earnest. At present, solving the following problems should be stressed: First, the representative assemblies power to make contracts. For state-owned enterprises, under the condition that the government and the enterprise are separated, the right to decide for themselves on operations according to contract is entrusted not to the individual, but to all of the enterprise's staff and workers, and it should be all of them entering into contract with the state, and then a certain operator is elected by the staff and workers for specific management. Thus can we

change the situation in which the operator's responsibility and power are not clear and no one takes charge of the enterprise, and the status of the entire staff and workers as masters of their own affairs are also manifested. Therefore, the selection of the contractor, the review of the contracted plan, and the distribution of the benefits from the contract should all be discussed and adopted by the staff and workers representative assembly, and the situation should be changed in which the contractor is selected by the leader alone, the contract base is discussed by the contractor and the leader alone, and the distribution of contract interests is decided by the contractor. Second, the representative assembly's power on the question of cadres. According to investigation, nearly 60 percent of the staff and workers in Dalian city believed that one of the major features as masters of the enterprises was that they were entitled to select the enterprises' leaders. So, we should gradually accomplish in the future. No matter how operators are generated, they should all be discussed by the representative assembly, and its comments listened to seriously; various levels and categories of cadres in the enterprise should continuously be commented on democratically and examined according to schedule, and the representative assembly is entitled to dismiss incompetent leaders. Third, the representative assembly's power on the distribution of benefits. To put into effect the above powers, it is also necessary to solve well the problem of the assembly's representatives being truly representative. Now, most of the assembly's representatives in some enterprises are party and government cadres of various levels and categories, and even in some advanced enterprises, representatives of workers from the production frontline account for only about 5 percent of the total representatives. Therefore, not only the representatives' representation should be ensured by perfecting nomination and election procedures, but the problem of representatives reporting their duties to the masses of staff and workers and answering questionnaires and accepting supervision should also be solved.

### III. Correctly Handle Question of Immediate Interests of Staff and Workers, Try Best To Remove Their Future Worries

Ensuring the immediate interests of the staff and workers is an important aspect in maintaining their status as masters of their own affairs, and is also directly related to bringing their initiative into play. One of the reasons some advanced enterprises can bring their initiative and creativity into better play is that they try their best to be as reasonable as possible on wages and bonuses within the enterprise, and carry out the policy of "adopting preferential measures toward the frontline." Workers at the grass-roots level and the frontline get higher bonuses, while the bonus for leading cadres of government offices and enterprises is relatively lower. Some comrades believe that under the present situation of unfair social distribution, such a distribution structure within the enterprise is important.

At present, the income of workers in some enterprises is unfair, which quite seriously affects their ability to give play to their initiative. They are expressed as follows: 1. The income of the operators of some small contracting and leasing enterprises are not standardized, their accounts not clear, and the enterprise's money and materials seem to have become personal private property, and can be spent as the operators wish without supervision by the masses. Some enterprises' production efficiency has not been raised after contracting, yet the contractors become rich suddenly. 2. The difference in income is too huge between the contractor and the staff and workers in some enterprises. Although the operation of many enterprises has not brought about high efficiency, yet the operator's income is a dozen times higher, or even scores of times higher than that of the staff and workers. In 1989, the operators' income of seven small enterprises in a county-level city was six to 40 times higher than that of the staff and workers. It was not only detrimental to the interests between the enterprise and the staff and workers, and seriously frustrated their initiative, but also affected large and medium enterprises, bringing about bad social influence.

It is necessary to make energetic efforts step by step to reasonably solve the problem of immediate interests of the staff and workers. Right now, emphasis should be laid on tackling the small contracting and leasing enterprises' distribution problems. One is standardization. Strict financial and auditing systems should be set up, like those of large and medium enterprises, for the revenue and expenditure of contracting or leasing enterprises, and the contractor should not be allowed to take charge of the accounts as well as money all by himself. Two is transparency. The operator's income, which has been discussed by the staff and workers representative assembly or has been determined by strict procedure, should be made public, to enable the broad masses of the staff and workers to have a clear picture about it. Three is reasonably readjust the gap of income between the enterprise's operator and staff and workers according to its operation. It was laid down by the department concerned that such difference should be one to three times, and the gap of income for leaders of some large and medium enterprises has not reached that proportion. They believed that under the situation in which the income in China presently was generally rather low, if the operator took too much, it would be unfavorable to the development of the enterprise and to the mobilization of the initiative of the staff and workers. The appropriate proportion should be discussed and adopted by the staff and workers representative assembly according to the enterprise's operation.

#### **IV. Attach Importance To Building the Staff and Workers Contingent, Enhance Its Own Quality**

The status of staff and workers as masters of their own affairs demonstrates both their power to be masters and to make their own decisions, and their responsibility to the state and the enterprise. Necessary, fine quality guarantee is required either for the exercise of power or

for the implementation of responsibility. Many enterprises' leading comrades believed that the development of the initiative of the staff and workers was determined to a very large extent by the quality situation of the staff and workers themselves. The major problems existing at present in the quality of the staff and workers contingent are: on the one hand, the overall technological quality of the staff and workers, especially that of the young workers, is downgraded. There are now 23,000 staff and workers in the machinery system of the City of Siping, Jilin Province, of whom 11,000 are young workers, and 60 percent are workers at and above Grade Two. During a test at the end of last year, only 12 percent were found to be really competent. Even in such an advanced enterprise as the Dalian Shipyard, some rather crucial technological posts are still mostly taken by veteran workers, and young workers are incompetent for the jobs. If adequate attention is not paid to solving such a problem, there will be no successors for some posts five years later. On the other hand, many young workers are lacking the fine quality of the older generation of workers. Enterprises in general report that nowadays young workers are quite indifferent to the spirit of hard struggle and the spirit of "screwing nails," and labor discipline is quite poor too.

The reasons that lead to the downgrading of the quality of young workers are many, the major ones are: First, the basic quality of new workers is low. Now, there are many opportunities and ways out for employment, and the room for the enterprise's selection in recruiting workers is greatly reduced. For example, Dalian Shipyard planned to enlist 200 foundry workers last year; in the end, only one highly short-sighted woman worker applied. One half of the new workers recruited by Beijing No. 1 General Machinery Plant were dismissed within half a year because of discipline violation. Second, the percentage of peasant contracted workers and rotation workers in the worker contingent increased. In Beijing Mineral Bureau, peasant workers at the excavation frontline already account for 73 percent, and about 80 percent of foundry workers and other posts in Dalian Shipyard are held by peasant workers. Some peasant workers are rotated once every few years, and do not have long-term plans, and therefore are not willing to study politics, technology, and culture. Third, the current wage policy is not conducive to encouraging workers to gain technological proficiency. Now, the wage scale for workers goes up in general according to years of service, and fixed wages account for a small percentage in the income of the staff and workers, and bonuses, floating wages, and all kinds of subsidies become the major source of income, and yet these incomes do not have much to do with the technological level, which objectively results in the fact that the workers are not willing to gain technological proficiency. Besides, influence by unhealthy moods in society is also an important reason.

According to the experiences of some enterprises, under the circumstance that it is difficult to straighten out



certain major policies within a short time, to enhance the quality of the staff and workers, the following measures should be taken within the enterprise: First, step up the ideological and political education and vocational and technological training of the staff and workers. On such a question, enterprise leaders should have long-term points of view, and be willing to spend money. Second, practical measures should be taken to encourage the staff and workers to enhance their abilities at their posts. Some enterprises started evaluating workers' technical titles. Those who had been assessed and awarded senior technical titles enjoyed excellent pay and the conditions of senior engineers. This makes young workers feel that they have something to work for, and kindles their enthusiasm to study technique. Third, new forms of income and distribution for the staff and workers of enterprises should be explored on a trial basis. As a general principle, the income of the staff and workers should conform to his (her) technical level and contributions. The situation should further be changed in which workers get the same income for different technical levels and contributions. Gradually readjust the wage structure, and appropriately enlarge the proportion of fixed wages. Fourth, it is necessary to ensure the recruitment of CPC members among young workers. Now there are too few CPC members among young workers. The CPC members among frontline workers in the Beijing Mineral Bureau account for only 1.18 percent of the total number of workers, 87 percent of the workers teams have no CPC members and CPC members under 35 years of age account for only 16 percent of total CPC members. Some enterprises' leadership appeal that guidance should be stepped up to recruit CPC members among frontline workers, and that young workers should be encouraged to seek political progress. Fifth, it is necessary to study solving the problems of a number of peasant workers to become regular workers, their registered permanent residence, and joining the CPC. Large numbers of peasants working in industrial enterprises is an objective reality of many enterprises in China. It will not work for them not to have a registered permanent urban residence for a long time, and be unable to join the CPC and be promoted to be cadres. Moreover, from the point of view of the enterprise itself, some posts cannot operate without them. Of course, under the present situation, it is not realistic to let all of them become full workers without exception. But a certain quota can appropriately be given for peasant workers to become regular workers, so that those peasant workers who are politically and technically brilliant can stay behind. This is conducive to encouraging them to enhance their own quality, and also to the enterprise's development. Some enterprises suggest that they should be allowed to enjoy the same right as regular workers on questions of evaluation of model workers and recruitment of CPC members.

#### **V. Create Conditions for Staff and Workers To Bring Their Initiative Into Being**

Wholeheartedly relying on the working class should not remain only at the talking level, but should be carried out

and put into effect. It is the main aspect for the enterprise's staff and workers to work hard at their own posts, and fulfill their duties and responsibilities. But if they are looked upon simply as tools fulfilling their production tasks, then it is impossible to manifest the status of the staff and workers as masters of their own affairs, and also impossible for us to say anything about bringing their role as masters into full play. The enterprise's leadership should provide necessary arena for the staff and workers to give play to their initiative, and create conditions as much as possible. The common practice of advanced enterprises are:

To create conditions for the staff and workers to participate in their major decision-making and democratic management. To accomplish this, it is necessary first to let the masses of the staff and workers know as much as possible about the enterprise's important production and operation situation, the internal and external environment and all kinds of difficulties it faces, and to enable all of them to "know the enterprise's affairs, settle the collective's accounts, and fulfill their own duties."

To provide an opportunity for every staff member and worker to display their talents. Within the socialist enterprise, the status of all the laborers is equal, and it is a concept of the whole to talk about the staff and workers as masters. As the enterprise's leadership, it should find ways and means to let the entire staff and workers, and not just a number of them, enhance their role as masters of their own affairs, and should not make any of them feel depressed or left out in the cold. Therefore, it is necessary to pay attention to the wide ranging representation in the election of representatives to the workers assembly, and not to go in for a "life-long system as representatives," do a good job in democratic management at the team level, increase the opportunity for the staff and workers to participate in the enterprise's affairs, perfect the agitation mechanism, and open the door wide to every one for honors and awards.

To encourage the staff and workers to forward rationalization proposals. The broad masses of the staff and workers are the major participants in the enterprise's various production and operation activities, and they have quite a profound understanding of the production and operation situation, especially that part of the job in which they are engaged. To inspire them to think actively and encourage them to make more comments and proposals on the enterprise's production, operation, and development are both the objective requirement for scientific and democratic decision-making on the leadership's part, and also important ways and manifestations for the staff and workers to take part in the enterprise's management and enhance their role as masters of their own affairs. Whether their proposals are reasonable or not, and whether they are accepted or not, they are expression of the power exercised by the staff and workers as masters, and the enterprise leadership should handle them seriously and make replies.

## POPULATION

### QIUSHI Views Problem of Aging Population

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[Article by Tian Sen (3944 2773) of the Sociology Institute of the Chinese Academy of Social Sciences. "Importance and Urgency of Solving Problem of Senility"]

[Text] Many nations in the world today are faced with the important social problem of an aging population. It is also a serious issue for China. The United Nations has held many conferences to discuss the problem and has included the issue on its agenda for at least the past 10 years. In recent years, I have been to many places in China and have conducted research about the problem of an aging population. The United Nations invited me to hold discussions with experts from different nations to find out how we should deal with the issue. I feel deeply about the importance and urgency of solving this problem.

#### I.

Historically the average life span in China has been rather short. During the time of Han Wudi, it was about 23 years, during Qianlong, about 28 years, and before the liberation, about 35 years. After the liberation, helped by the superiority of the socialist system, science and technology, culture, medicine and hygiene developed rapidly. The average life expectancy of the population has gone up at a very high rate. In 1957, life expectancy was 57 years. In 1963, it was 61.7 years. In 1981, it was 67.88 years. In 1987, it was 69.5 years. In 1990 it was approximately 70 years.

According to the UN definition, people who are 60 years old or above are considered elderly, and a nation with over 10 percent of its population elderly or with more than 7 percent of the people 65 years old or older is called an "aging nation." From a sociological point of view, we can see that the aging of the population reflects the economic and cultural development level of a country to a great extent. Therefore, we can say that an aging population is a symbol of modernization. We often say that the nature of an aging population is divided twofold. On the one hand, it is the result of developments in society, the economy, science and technology, and culture and education; it is a symbol of social progress. On the other hand, it brings a series of problems to society. How do we overcome the negative effects brought onto the society by the aging of the population? This is a serious problem we are facing.

#### II.

An aging population is an inevitable trend in today's world development. Compared with the aging population in other developed nations, what are the characteristics of China's aging population?

1. The absolute number of elderly in China is the highest in the world. At present there are approximately 100 million people over 60 years old in the country. By the end of the century, the number will increase to 130 million, which will be almost 10.5 percent of the total population. By the year 2025 the number will be 280 million, approximately 19.34 percent of the general population. By the year 2040 there will be more than 390 million elderly, or almost 28 percent of the general population.

2. We started late, but we are catching up quickly. China will join the list of "aging nations" at the end of the century, half a century or a whole century later than the developed nations of Europe and America. China certainly had a late start. As soon as it joins the list of "aging nations," however, it will develop rapidly. Certain forecasts have indicated that, between the year 2000 and 2050, China's population will grow by 20 percent, yet its elderly population elderly will increase by 100 percent. In 2025, the growth rate of the elderly population will be 6-7 percent higher than the average rate (13.7 percent) of aging in the world population. The rapid growth in the elderly population will definitely cause their number to be disproportionate to the working population. There are two main reasons why the population is aging so fast. One is that the mortality rate has come down rapidly, and the other is the swift decline of the birth rate. In 1949, the death rate in the whole country was as high as 20 percent. [figure as published] During the 1980's, the death rate was always around 6-7 percent. [figure as published] Because family planning began to be implemented in the 1970's, there has been a large-scale decline in the birth rate and the natural population increase. Between 1949-1973, the annual average natural population increase in China was 20 per thousand. Between 1973-1988, the number went down to 13.8 per thousand, lower than the average level in developing countries in the world. Based on the present population policy, the birth rate will continue to decline in the future.

3. The population is not aging evenly. In economically developed areas, the proportion of elderly to the total population is quite large, but in economically undeveloped areas the proportion is quite small. Take for instance an economically developed area like Shanghai, where 13.4 percent of the general population is elderly. This is the first city to join the list of aging cities. In a medium-sized city like Chang Zhou, where the economy has developed rather quickly, the proportion of elderly to the general population has also reached 10.91 percent, while in economically backward areas the proportion of elderly to the general population is relatively low. Even within the same city the speed of aging in the urban and suburban areas is faster than that in the rural areas.

4. There will be a large increase in the number of elderly in need of care. Certain forecasts have indicated that, the proportion of elderly in need of care will increase from 12.9 percent during the 1980's to 46 percent by the

middle of the 21st century—a 33.1 percent jump. It is rare to see such an exponential rise in the course of aging populations in the world.

5. The rapid development in aging does not correspond with economic development. As I have mentioned before, the aging of the population in China is occurring under specified conditions; the aging process has had a late start, but it is coming on strongly and is developing rapidly. It is certain that the combination of a weak economic base with a rapidly aging population will lead to intense conflicts. The situation in China is quite different from that of some Western developed countries, where an aging population has developed under conditions of great economic growth and high living standards.

6. The economic development level and the advanced stage of an aging population together will lead to intense conflicts. It will be more difficult for China than for other countries to solve the problem of an aging population.

### III.

How does the aging of the population affect our society?

1. This will have an effect on industrial production. The aging of the population will lead to the aging of the working population. As the process of aging develops rapidly, the structure of the working age population will begin to change. The result will be that the proportion of young workers will continue to decline, and the proportion of the workers who are middle aged or elderly will keep rising. On the one hand, an aging work force means that there is a higher number of skilled and experienced workers; this is good for improving labor productivity. On the other hand, an aging work force also means that the workers' physical strength is weakened, and hence their ability to adopt modern technology is also weakened. This will have a negative impact on productivity.

2. This will make the social economic burden heavier, and the State Planning Commission's Labor and Wage Bureau has indicated this in its statistics. In 1980, the total number of retired workers in China was 8.17 million, 7.8 percent of the total number of working people. By 1990, the number of retired workers was about 19.8 million, 14 percent of the total. By the year 2000, the number will rise to about 31 million, 17 percent of the total number of workers. There will be more and more old people and society's economic responsibility for the elderly will only become heavier and heavier.

3. This will lead to structural changes in consumption, production, and the economy. When a person becomes elderly, his consumption needs will often differ from the young and the middle-aged. Changes in lifestyles, daily environments, psychological needs, physical needs, and incomes are the factors dictating the difference. Generally speaking, older people need special kinds of consumer products. They demand more commodities that

keep them warm, more medical supplies, and more services for their daily lives. When the percentage of the population made up by the elderly is growing ever larger, the needs of the elderly for special consumer goods will undoubtedly have various influences on the production, employment, and commodity structures in society.

4. The aging population will have a decisive influence on the "intelligence pool." Old people are an important resource of the "intelligence pool," and they are society's most precious wealth. Inside China's talent bank the experience and knowledge of old people occupies an undeniably important position. This is particularly true in some education departments, whenever experienced elderly people retire, new people have trouble picking up the work load. The mobilization of greatly experienced and specially trained elderly to continue serving the four modernizations is a major issue of strategic significance. If the issue is not dealt with properly, it will only have a negative impact on social stability and development.

5. The aging of the population has an effect on the progress of science and technology. Generally speaking, young people are more interested in technological renovation, inventions, and creativity than older people. Young people are not handicapped by "paradigmatic blindness" [fan shi ping zhang 5400 1709 1456 7140] (According to psychological studies, in general, people who are over 50 years old tend to be affected by "paradigmatic blindness." In other words, a fixed opinion towards certain subjects affects a person's ability to view things objectively). They have the courage to invent and practice new ideas. An aging population is not good for invention, creativity or scientific and technological progress.

6. The aging of the population will have a political impact. To satisfy the demands of modernization, many old comrades retreat, one after another, from their leading positions, and more and more energetic young and middle-aged people are taking over their jobs. It is certain that this will bring more vitality and pioneer spirit to our work and will promote the faster realization of the four modernizations.

7. The aging of the population weakens the effect of lateral economic ties, and economic growth requires the continuous reinforcement of lateral economic ties. Elderly people find mobility less and less interesting, however, and this will have a negative impact on the launching of lateral, transregional, and multiprofessional economic activities.

8. The aging of the population will accelerate the development trend in service jobs, that is, the socialization of service jobs. Because of reinforced family planning and an aging population, the situation in which one young couple has to care for four elderly people has become more common. The middle-aged and the young must improve their own qualities and do their jobs well, and, at the same time, they must take care of their elderly and educate their children. This definitely takes a toll on



their health. The early deaths of some middle age intellectuals have already given us a warning signal. Therefore, in order to adjust to the objective situation of the aging population, we must work harder to accelerate the socialization of service work. This requirement is more urgent than ever.

9. There will be a continuous increase in special demands on the part of the elderly. Elderly people require special kinds of material consumption and have different spiritual and medical needs. For the elderly, we must build special public facilities, such as old people's homes, geriatric hospitals, health clinics for the elderly, universities for old people, etc., so that they can continuously satisfy their individual needs.

Our understanding of the importance of the aging population issue still falls behind reality. We must educate ourselves on this issue and deal with the problem properly by standing on the strategic level. We should make the appropriate arrangements as early as possible and work hard to reduce to a minimum the negative impacts on social and economic development caused by an aging population. We should strive to make our work for the elderly serve the construction of material and spiritual civilizations. Success in solving the problem of an aging population will demonstrate the superiority of the socialist system and will strengthen the people's loyalty to socialism. Failure will drive more people away from socialism—and we must keep this point in mind.

Everyone knows that Japan is an aging nation: 30 percent of the population of approximately 120 million is over 65 years old. The Japanese media has termed the aging of the population a "nightmare," and this issue has inspired much heated debate. The Japanese Ministry of Industry and Trade has suggested that Japanese retirees emigrate to other countries for two reasons: The island state is full of people, and the value of the Japanese yen has gone up, meaning that those Japanese who are dependent on pensions can live better outside the country. Today, the elderly in Japan often feel depressed, because they are lonely. One-third of those who commit suicide in Japan are over 65 years old.

Our nation is a socialist state and a big country. The problem of an aging population can only be solved by us, within the country. We cannot rejuvenate the population by raising the birth rate and increasing the number of young people and children. We must take durable measures to reduce the long lasting burdens brought by an aging population onto the working age population. It appears that the most fundamental way to do this is to make an extensive effort to enhance productivity and build a solid material foundation for society. To do this, we must increase investment in the intelligence and health of the working population and must earnestly change the condition of a low quality labor force so that we may continue to improve labor productivity. Moreover, letting the elderly who are still able and enthusiastic to continue to contribute to society is also an effective measure of lightening society's burden. We

have always advocated getting the best out of everyone; there should be different channels for retirees to continue making their contribution. We need to have a scientific cadre administrative quota system, which will give us ample regulations to help us decide who should stay and who should retire.

We must pay attention to the aging population problem. We should use education and public opinion as a means to vigorously promote the Chinese virtues of respecting the elderly, loving the elderly, and caring for the elderly, and we must diligently improve relations among the present generations. It is important that we formulate a law for protecting the elderly's legal rights. We must establish a unified, authoritative, and highly efficient government office to deal with the issue of aging as soon as possible. We should fully demonstrate socialist superiority and solve the old age problem by integrating different channels, levels, and methods. We will be successful in our work for the elderly, a new undertaking that has great prospects.

#### Inner Mongolian Population, Problems

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1 Nov 91 p 4

[Article by Mei Changhua (2734 7022 5478), affiliated with the Inner Mongolian Autonomous Region Census Office: "The Impact of Controlling Population Growth On Achieving Our Second Strategic Modernization Objective"]

[Text] The Seventh Plenary Session of the 13th CPC Central Committee set China's second strategic modernization objective, drawing up a grand blueprint for China's future socialist economic development. Moreover, it clearly set forth the population control objective of "striving to keep our natural population growth rate under an average of 12.5 percent a year for the next decade." Fulfilling this huge task of population growth control will be of key significance to ensuring the achievement of China's second and even third strategic modernization objectives.

As to economic development, the Inner Mongolian Autonomous Region (IMAR), as the rest of China, has already successfully achieved our first strategic objective of doubling our GNP since 1980 and is now in the process of forging ahead to achieve our second strategic objective. The "Eighth Five-Year Plan" and the 10-Year Program, which were approved by the Fourth Session of the Seventh IMAR People's Congress, set forth the "guarantee seven and strive for eight" struggle objective for the IMAR's GNP growth rate in the next decade, which is premised on improving our economic performance and based on enhancing our overall productive capability. As this struggle objective was drawn up based on scientific proof and is in line with our actual conditions, it will be fully achievable through hard work.

As to controlling population growth, along with our socio-economic advances and thorough family planning

since the 1970's, the IMAR has already somewhat reversed our excessive population growth momentum and has made clear progress in controlling our population growth. Data from the Fourth Census show that the IMAR's population was 21.457 million on 1 July 1990, or 2.183 million more than in the Third Census in 1982, for an increase of 11.32 percent and an average growth rate of 1.35 percent a year, which was lower than the average growth rate of 1.48 percent for all of China during the same period, and far lower than the IMAR's average growth rate of 2.5 percent a year during the 18 years from 1964 to 1982. The Fourth Census shows that the IMAR's birth rate and natural population growth rate were 20.12 percent and 14.32 percent, respectively, or lower than the national rates of 20.98 percent and 14.70 percent, respectively, which ranks us 11th from the lowest as to natural population growth rate among China's 30 provinces, cities, and autonomous regions. This shows that the IMAR has achieved enormous successes in population control.

But as the IMAR is still facing a grim population situation, we cannot ease off even a little in our family planning. An analysis of the Fourth Census results shows that the IMAR's ratio of childbearing age women to overall population had increased from 25.27 percent in 1982 to 27.85 percent by 1990, with our number of childbearing age women increasing from 4.87 million in 1982 to 5.88 million by 1990. This year, 1991, is the first year of the "Eighth Five-Year Plan," as well as being the peak period of the IMAR's childbearing cycle. It is projected that the number of our women who will reach marriage and childbearing age in the "Eighth Five-Year Plan" will be 1.274 million, or over 252,000 more than during the "Sixth Five-Year Plan," and almost 100,000 more than in the "Seventh Five-Year Plan," when we were already in our peak childbearing period. An average of more than 240,000 childbearing age women a year will be in their peak childbearing period during the "Eighth Five-Year Plan," which will be much higher than that for either the "Sixth Five-Year Plan" or the "Seventh Five-Year Plan." In particular, the IMAR is now experiencing a rather severe phenomenon of early marriage and childbearing and multiple births (bearing of more than one child). Our percentage of early-married women had increased from 2.91 percent in 1982 to 4.59 percent by 1990, and our childbearing rate for early-marriage women had increased from 6.28 percent in 1981 to 19.86 percent by 1989. While our ratio of multiple births to all births had decreased somewhat over 1982, it was still 14.59 percent. While the national demand to keep our natural population growth below an average of 12.5 percent a year during the next decade means that the IMAR's population cannot exceed 24.5 million by the year 2000, if we do not put a lot of effort into population control and let our population continue to grow at the average natural growth rate of 1.34 percent a year that it did during the "Seventh Five-Year Plan," our population will exceed the planned, controlled amount by the end of the century. Thus, as the IMAR's population situation is still quite grim, our leaders at all levels and

the broad masses of people must analyze the situation correctly and deal with it soberly. Not effectively controlling our population growth over the next decade will be bound to have a direct impact on the IMAR's achievement of our grand strategic economic development objectives.

While it is common knowledge that the IMAR has achieved rapid socio-economic development since the Third Plenary Session of the 11th CPC Central Committee in 1979, our too fast population growth has had a large impact on the improvement of our economic might and per capita performance.

Calculated according to constant prices, the IMAR's GNP and national income had by 1990 reached 16.976 billion yuan and 13.285 billion yuan, respectively, for increases over 1982 of 92.47 percent and 86.27 percent, respectively, while our per capita GNP and per capita national income had increased only 71.4 percent and 65.95 percent, respectively, during the same period, so that the increase in our GNP of 22.8 percent and the increase in our national income of 23.6 percent were wiped out by the increase in our population during this eight-year period.

The IMAR's too fast population growth has reduced our cultivated area and increased our food demand pressure. In the eight years from 1982 to 1990, the IMAR's cultivated area decreased 2.149 million mu, for an average drop of 270,000 mu a year, while our cultivated area decreased from 4 mu to 3.4 mu per person, or 15 percent. This increasing population and decreasing cultivated area has brought steadily increasing food supply pressure. While our grain output reached 9.73 billion kg in 1990, or 77.9 percent more than in 1982, our per capita grain increased only 63.6 percent, so that our 36.6 percent increase in grain was wiped out by our increased population.

While the IMAR has achieved great educational developments in the last eight years, with our educational funding increasing by 190 percent, our steadily increasing population has meant that our per capita educational funding has increased by only 160 percent, or clearly less than the growth rate of our educational funding, which has had an impact on the improvement of our literacy levels. While our 1990 illiterate and semilliterate population over the age of 15 years had decreased somewhat over 1982, it still numbered 3.3 million, or 15.39 percent of our population. It is thus obvious that our too fast population growth has put huge pressures on the IMAR in areas such as employment, housing, and transportation.

In order to strictly control our population growth, party committees and governments at all levels will have to enhance their sense of "urgency," "crisis," and "responsibility" toward the population problem, further improve their family planning leadership, continue to steadily enforce existing childbearing policies, make full use of legal means to strictly control early marriage and

childbearing and multiple births, continue to invest more human, financial, and material resources in family planning, practice a widespread goal responsibility system to control population growth, and do a better job of guiding and managing family planning in rural and pastoral areas.

## AGRICULTURE

### 'Inspirations' From Flood Fighting Victory

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1 Oct 91 pp 15-18

[Article by Minister of Water Resources Yang Zhenhui (2799 2182 2037): "Inspirations Gained From Initial Victory in Fighting Floods, Providing Disaster Relief"]

[Text] This summer, parts of China suffered extremely poor weather. Continuous torrential rainfall was concentrated in the Jianghua and Sunghuajiang regions, and the flood situation there was extremely serious. In the two months from May to mid-July, along the long narrow strip of land extending from Guiyang in the west to Shanghai in the east the rainfall averaged over 500 mm, while in the area between Wuhan and the Yellow Sea it was over 800 mm. In Jiangsu and Anhui provinces, the rainfall in two months' time exceeded that of an ordinary year. In the Taihu region, the rainfall in 30 days was 502 mm, the highest in the hydrological record of the region. Large-scale, prolonged, and sustained rainfall caused a desperate state of flooding and waterlogging in the Jianghuai region. The Huaihe River overflowed, causing flooding second only to the great flood of 1954. Taihu's water level on 16 July was higher by 0.14 meters than that in 1954 as seen in the hydrological record. Twice in succession Changjiang's branches and the Xuhe along the border of Jiangsu and Anhui caused the most flooding ever recorded. In addition, in Hunan province, waters of the Fenghe overflowed the banks and caused a huge flood, and in Jian the level of the flood waters was the highest since the PRC's founding. Various rivers in the central part of Hubei Province such as the Juhe, the Bahe, the Duhe, and the Tianmanhe, and several branches of the Wuhe in Guizhou Province also caused the most flooding since the founding of the republic. After the middle of July, the major rainfall region shifted to the north. In northeast China there was incessant rainfall. Flooding from waters of the Nenjiang, the second Sunghuajiang, the Lalinhe, and the Mudanjiang occurred concurrently, and overflowing of waters from the main stream of the Sunghuajiang caused flooding which was the largest in magnitude next to the great flood in 1957. In regions near the above-mentioned rivers, such as the Huaihe flatland, the Changjiang delta, the Taihu and Chaohu areas, two banks of the Xuhe, lake areas in Hunan and Hubei, and the Sanjiang flatland, large-scale flooding of lowland and waterlogging occurred and the disaster was very serious.

The scale and prolonged period of the flood this year were unprecedented. Facing the ravage of this flood, our

country and people, under the leadership of the Communist Party, were united in the struggle, overcame all odds, and over 10 million people took part in fighting the flood. After a continuous struggle of three months, the initial victory in fighting the flooding and providing relief was ultimately achieved. Once again the facts showed the great wisdom and sagacity of the CCP and the incomparable superiority of the socialist system.

**New China's 40 years of water conservancy work has provided a strong basis for successfully fighting floods.**

China has been frequently visited by natural disasters. Eliminating and preventing flood disasters and taking up water conservancy work have been the urgent demand and common wish of the vast masses of people. In the several thousand years of history of water control—despite the accomplishment of many world-renowned feats in water conservancy construction and many patriots striving hard to master Western water control scientific technology—due to the lack of a firm, strong and unified leadership and an advanced social system, the efforts to completely remove the threat of flood and drought, such as managing the Huanghe and controlling the waterflow of the Huaihe, have all become bubbles in the air. The scope of flood and drought disasters has taken a severe turn for the worse, and overflowing rivers have caused a succession of floods. Each flood disaster has caused several tens of thousands—even hundreds of thousands—of people to lose their lives, and several million people to lose their homes and belongings. Serious natural disasters have eaten up and devastated the Chinese race. For generations, the extensive masses of working people have prayed that the flood menace would be removed and that water conservancy work would begin.

Only after the Chinese Communist Party led the Chinese people to overthrow the reactionary rule of imperialism, feudalism, and bureaucratic capitalism were the wishes of generations of Chinese people realized. Establishment of the PRC began a new era in China's history and opened up a new page in the Chinese people taking up water conservancy work and readjusting rivers and mountains.

First, CPC leadership and the socialist system have enabled us, on a country-wide scale and with unified planning, to make comprehensive arrangements and rationally open up water and soil resources and undertake flood control. China's large rivers mostly flow through various provinces, cities, and autonomous regions while medium and small rivers and streams likewise pass through more than one county or village. Going into water conservancy work is not purely an engineering and technical problem, but also is related to the partial, whole, current, and future interests of territories on the upper and lower stretches and the right and left banks of the rivers and streams, their adjacent localities and the departments there.



The Chinese Communist Party, approaching the issue from the interests of the entire society, has justly and rationally coordinated relationships among the various sides, formulated a unified plan for controlling rivers and doing water conservancy work in the whole country, and mobilized all social forces to put the plans into smooth operation. In 40 years of hard and difficult struggle, 203,000 kilometers of embankments around lakes and ponds have been repaired or newly built, water outlets at the lower stretches of the Huaihe and Haihe have been opened up and/or expanded, over 80,000 large, medium, and small reservoirs with a capacity of 450 billion cubic meters have been installed, over 5,300 irrigation points each covering an area of above 10,000 mu have been constructed, and the total irrigation area has been expanded from 240 million mu before liberation to 720 million mu now. Electrical irrigation capacity has been developed from 71,000 to 66 million kilowatts. Be it the building of water reservoirs, or tunnels or water channels, requisition of land was needed. All this required structural changes in the villages and countryside as well as changes in the geographical distribution of cities and towns, and this all has been smoothly realized under unified state planning.

Second, at each stage of socialist construction, the party's leadership and the socialist public ownership system have enabled the centralization of a fixed amount of human, material and financial power for use on water conservancy construction work. Large water conservancy backbone engineering work requires huge investment, and its construction lasts for a prolonged period. It is certainly not an easy matter for China, which has just entered into socialist construction, to undertake such work. The establishment of the public ownership system, however, has made the extensive masses of working people masters or owners of the means of production, which has basically raised their production enthusiasm and creative spirit, and within a short period of time a fixed amount of funds has been accumulated. The party and government, approaching the issue from the basic interests of the whole national economy and people, have, in a planned manner, assigned a portion of the accumulated funds to use on establishing and developing water conservancy engineering work.

For example, in the treatment of the flood menace of the Huanghe, in the provinces and autonomous regions of Qinghai, Gansu, Ningxia, Inner Mongolia, Shaanxi, Shanxi, and Henan crossed by the main stream of the river, eight large water conservancy projects have been completed, these include Longwangxia, Liujiata, Qindongxia, Sanmanxia and others. In the provinces of Guizhou, Hubei, Hunan, Jiangxi, and Anhui, along the valley of the Changjiang, six water reservoirs have been built such as those located in Wujiangdu, Danyangkou, Zhexi, and elsewhere. Embankments on the two banks of the Huaihe and around the Hongzehu and Taihu have been raised and strengthened. At the same time, control and development of the Haihe, Liaohe, Songhuajiang, and Zhujiang have been undertaken. Right now the

value of fixed assets in water conservancy amounts to 110 billion yuan throughout the country, thus forming a considerable large-scale system for flood prevention, drainage of waterlogged areas, hydro-electric power and water supply. All these have laid the material foundation for our struggle against flood and drought disasters.

This time all the main embankments along the large rivers and around the lakes remained intact against the onslaught of the flood; the embankment did not break anywhere, and no water overflowed from the large and medium reservoirs throughout the entire country. At the same time, full utilization was made of electrical pumping facilities to drain water from farmland to protect seedlings and enable crash planting. In Jiangsu Province, the 2.7-million-kilowatt electric power water pumping system was put into full operation. Likewise, in Hubei Province, the 2-million-kilowatt electric power water pumping system was also promptly put to work day and night, draining out water from 40-million mu of farmland. Of the 29-million mu of waterlogged farmland in Anhui Province, up to the present, 25-million mu have already been drained. Following draining, farmers resumed work on late autumn crops, and thus helped to reduce losses caused by flooding and waterlogging. It may be safely concluded that if there had been no water conservancy construction in the past 40 years, facing such an enormous natural disaster, the state and people would have sustained unimaginable losses in lives and properties.

**The correct leadership and command of party organs at various levels have been the political guarantee of seizing victory in flood control.**

In facing the challenge of large-scale flood disaster, the masses of people particularly needed strong, effective, and correct leadership and guidance. Indeed, as the saying goes, "heroism can be displayed only in face of calamities." That this time we were able to achieve great successes in fighting floods may precisely be attributed to the Chinese Communist Party, itself organized principally for protecting public welfare and interests, mobilizing its organs at various levels, closely watching the development of the flood situation, promptly determining various policies of protecting embankments, conserving flood waters, dividing up their flow, draining them, transferring the distressed masses to safer areas, and leading the masses of people to fight bravely against the flood disaster.

In particular, in the course of water conservation and flood prevention, it was unavoidable to sacrifice the partial interests of certain localities. In this connection, organs at various levels in the provinces and cities of Anhui, Shanghai, Zhejiang, Henan, Jiangsu, and others have faithfully and strictly followed the united command of the Central Committee and the State Council, made minor interests subordinate to major interests and the part subservient to the whole, and offered contributions for the sake of protecting the entire situation. For example, for 60 days of the year, the gross volume of

flood water from the Huaihe River amounted to 50 billion cubic meters, exceeding the average annual water flow of 12.7 billion cubic meters for many years. Under the direct command of the Central Committee and the State Council, in the Huaihe River flood fighting work, first, the 15 large water reservoirs on the upper and middle stretches of the river were fully utilized to contain 3.8 billion cubic meters of water, reducing by 60 to 90 percent the peak of flood waters along its tributaries; second, use was promptly made of the three flood water conserving and 14 flood water moving districts to detain and conserve 4 billion cubic meters of flood waters. One million people were on watch day and night and protected the over 200 kilometers of the main embankment of the Huaihe River; third, full use was made of the water outlet system in the lower stretches of the river to let out the flood water. By means of the water outlet channels in the large rivers, enlarged on the Huaihe River after liberation, the newly erected general irrigation channels in northern Jiangsu Province, and the Huainu-Xinhe River for diverting water from the Huaihe River to the Yihe River, the outflow of flood waters into the large rivers, high seas, and the Yihe River was 11,000 cubic meters per second and the total volume of drained flood water was over 50 billion cubic meters. It was precisely by dependence on this type of organizational discipline and spirit of self-sacrifice that we were able to "convert danger into safety," maintain intact the three protective walls of Huaipei plain, namely, the three large embankments of Huaipei, Hongzehu, and Yundong, accord protection to the 30-million mu of farmland under their cover, and protect the safety of the important cities and towns of Huainan and Bengbu, the Jianpu Railway, and production facilities of the coal mines and electric power stations in the vicinity. Conversely, if there had been no unified leadership, command, directions, and actions, and if each should have worked separately for itself, with the whole state of affairs thrown into disarray, then considerable confusion would have reigned. Certainly mishaps would have happened in one of the working stages, and the whole situation could have been endangered.

It is said that, although the flood waters of the Huaihe River were large, there were still many measures to help control and move the flood waters. In the case of Taihu, it was a great puzzle. Since liberation, much construction was undertaken to treat the waterways around the Taihu sector, but, due to the many years of blind land reclamation, the outlet doors of the lake were practically blocked, and work on the planned waterways either never began or was not completed. As a result, after these torrential rains, the water level of the lake rose sharply to a perilous condition. In order to convert danger to safety, the central leadership comrades personally proceeded to Jiangsu, Zhejiang, and Shanghai to find out the exact situation and to make the necessary policy decisions. Emergency measures were taken. In Jiangsu Province, a portion of the water outlet gate of eastern Taihu was opened; the Taihu gate was also opened to release the

flood waters, and Shanghai broke open the Qianzhengdong and the Hongqi embankments at the lower stretch of the Taihu River, thus opening up the eastern gateway of Taihu to the Huangpu River. Similarly, Jiangsu broke open the Shadunong embankment at the entrance of the Wangyu River, thus opening up the northern gateway of the Taihu to the Changjiang River. Zhejiang Province opened up Deqing gate on the Dongzhao stream to let out water to the Hangjiahu areas, fully utilized the already completed Changshanhe engineering project to drain water southward to the Qiantong River, and also used the seven large water reservoirs in the Tianmushan area to hold the flood waters, thus reducing the volume of water flowing into the Taihu. After these measures were adopted, the water level at Taihu gradually fell and the larger embankments around the lake remained intact, protecting the safety of the important towns of Shanghai, Wuxi, Suzhou, Jiaxing, Huzhou and others, and making it possible for the Shanghai-Nanjing and Shanghai Hangzhou railways to operate smoothly.

The total estimated volume of water of the especially large flood from the Xuhe River—which on two occasions exceeded the historical record—was 3.28 billion cubic meters. Under the central government's unified command and direction, the five large and medium reservoirs in Anhui Province conserved 300 million cubic meters of the flood water and reduced the peak level of the flood by 50 to 90 percent. By means of the Maishan water-induction channel of Anhui Province and the recently completed Mahanhe of Jiangsu Province, 2.6-billion cubic meters of the flood waters were released, and the two provinces further broke open 12 small dikes and released 400 million cubic meters of the flood waters. Eventually, the threat to the Tianjin-Pukou Railway Bridge was removed, and the smooth operation of China's transportation artery was ensured.

Since 1986, the two provinces of Jilin and Heilongjiang have firmly insisted on guidelines centering on prevention. Impediments on the river course of the Sunghuajiang River were removed; dikes along the river's banks were reinforced and raised in height. The high water season this time caused the emergence of a flood which was next in magnitude only to the 1957 flood. Leadership comrades of the State Council personally proceeded to the spot to make policy decisions and correctly employed the Fengman Reservoir, on the second Sunghuajiang River, and the Baishan Reservoir to store the flood waters. This reduced the peak water level of the second Sunghuajiang River by 72 percent. In the two provinces, a million soldiers and civilians took part in fighting the flood disaster. Along the over 1,000 kilometers of embankment of the Nenjiang and Sunghuajiang rivers and the main stream of the Sunghuajiang River, no rupture occurred, and the safety of various areas on the two banks was protected. The important cities of Harbin, Jiamusi, Mudanjiang, and others remained unscathed.

In short, under extremely difficult conditions and without the leadership of the Communist Party, it would

have been unimaginable to have made the decisions to break open the embankments and dikes, transfer one million people to new homes without causing a single death, and within a short period of time to have organized and mobilized 10 million people to take part in fighting floods and providing disaster relief.

**The spirit of the socialist era of sacrificing and devoting oneself to public interests to forget private interests, and wholeheartedly serving the people has encouraged the entire party and country to unite in fighting floods.**

In flood fighting and providing disaster relief this time, it was the party's firm leadership, and the communist demeanor and air which stimulated the people and the whole country to engage in great socialist cooperation and speedily forged the situation of all sides, lending aid to those in distress and jointly fighting the flood. For a period of time, the party Central Committee and the State Council took flood fighting and disaster relief as the central task of the entire party and country. The state's leadership, such as Jiang Zemin, Li Kang, and others, shared the same feelings of distress and harbored the same wishes as the people in the disaster-ridden areas. They worked day and night. One after another they proceeded to the front line of the flood-fighting areas to comfort the victims, look into the flood situation, direct work and heighten the fighting spirit of the vast masses of cadres and people in the areas and whole country. Under the leadership of the central authorities, in the provinces and cities of Anhui, Jiangsu, Henan, Hubei, Zhejiang, Shanghai, Beijing, Hunan, Guizhou, Sichuan, Heilongjiang, and Jilin, the leadership and responsible comrades of subordinate districts (cities and towns) and counties all proceeded to the front line to take part in flood-fighting work. They shared weal and woe with the people in the disaster-stricken areas. The extensive masses of Communist Party members and cadres at the grass-roots levels cared not for their own safety, but went ahead with saving lives of the disaster-ridden populace and properties of the collectives and the state. They fully demonstrated the socialist spirit of the era, minding public interests, forgetting private interests, and wholeheartedly serving the people. This spirit developed into an enormous unifying force rallying millions of people around the party institutions to throw themselves into the struggle of fighting disasters and seeking self-salvation.

The PLA and armed police units constituted the main forces in fighting floods and providing disaster relief. Altogether, 530,000 cadets and officers from the PLA and armed police units were mobilized; 40,000 vehicles, boats and ships were deployed, and 34 airplanes were used; large quantities of material resources were transferred, and over 800,000 people were saved and delivered from the flood areas. The people's soldiers displayed the spirit of the glorious tradition of fearing neither hardship nor death. They battled against violent winds and storms, courageously advanced forward, displayed a high degree of heroism, and performed unprecedentedly well in the struggle against the floods.

All departments helped each other with the relief work. They broke the usual work routine, attended to urgent tasks, and, as far as relief matters were concerned, there were green lights all the way. Various State Council departments dispatched work units to the disaster-stricken zones to help solve difficult problems on the spot and promptly arranged the materials and funds needed for flood fighting and relief. The People's Bank directly gave the disaster-ridden zones loans amounting to 2 billion yuan; the Agricultural Bank likewise readjusted the loan amount to 2 billion yuan and increased the ordinary commodity loans by 1 billion yuan, while the cooperative societies increased loans by 1 billion yuan. In all, the various banks gave the distressed areas loans amounting to 12 billion yuan. The China People's Insurance Company paid claims to the disaster areas amounting to 790 million yuan. The railroad, communications, and civil aviation departments all gave preference to shipment of materials for relief. The postal and telecommunications departments guaranteed the safe operation of their facilities, while the maritime customs and commodity and sanitation inspection departments likewise gave preference to the inspection and passing of shipments of relief materials.

The relevant departments appropriated to the disaster-ridden areas relief funds amounting to 1.486 billion yuan, 230 million kilograms of grain, 275,500 tons of diesel oil, 70,800 cubic meters of timber, 209,500 tons of cement, 530,000 tons of coal, and 97,300 rolls of asphalt felt. The East China Electric Power network set aside 200 million kwh of electricity for use in relief and drainage of flood waters. The state flood prevention headquarters, assisted by 13 provinces, municipalities, and autonomous regions, including Shandong, Jiangxi, Hunan, Tianjin, Shaanxi, Fujian, and Hebei, dispatched over 9 million grass bags to the disaster areas of Jiangsu and Anhui to strengthen and reinforce embankments in the flood fighting effort. In addition, in the whole country, people and various social circles voluntarily developed various kinds of contribution activities to raise funds and materials for flood relief. In short, on China's mainland once again there was singing of the triumphant song of great socialist cooperation.

Because of the party's correct leadership, because of the great support rendered by people of the whole country, plus the hard and tedious struggle of the cadres and people of the disaster-stricken areas, we have finally achieved initial success in the struggle of fighting flood and providing relief. At present, in the disaster-ridden areas, peoples' hearts are at ease; social order has been restored, and the cadres and populace are in high spirits to plunge into the new struggle of restoring production and rebuilding their homes. It should be noted that, to a certain extent, this new struggle will be even more difficult than the earlier stage and still need the whole party and people of the whole country to devote greater efforts, to engage in self-regeneration, struggle hard, help each other and work together. We must, under the leadership of the Central Committee, further display the



socialist spirit of the era and fight for final victory in flood fighting and providing disaster relief.

The flood and waterlogging disasters this year also revealed that there were certain problems in construction work and in preventing floods and waterlogging. This requires us to further and earnestly sum up the experiences and lessons of the past. This flood disaster amply demonstrated that water conservancy was the basic measure and enterprise for socio-economic development, and that treatment of the rivers should be allowed to play a big role in governing the country and ensuring the people's security. We should greatly augment flood prevention understanding of the whole society and people, undertake water conservancy construction for some time, work in due accordance with natural and economic laws, adapted to, utilize, and transform nature, and enhance the ability to fight against natural disasters. At the same time, we should integrate disaster recovery with developing water conservancy, actively do a good job in unifying water resource management, and protect, develop, and utilize these resources. We should also develop irrigation, water drainage, water supply, hydro-electric power generation, rural electrification, and maintenance of water and soil,

all for the sake of serving social development and developing the national economy.

We firmly believe that, by relying on the party's firm and strong leadership and irrevocably taking the socialist road, we certainly can put China's mountains and rivers in good order, bring benefit to the people, and contribute to the growth and prosperity of the Chinese nation.

#### **National Cotton Purchasing Exceeds Quota**

92P30076A Beijing JINGJI RIBAO in Chinese  
29 Jan 92 p 1

[Summary] According to the Ministry of Commerce, by 20 January this year, the nation had completed 112 percent of the contract purchasing plan for cotton. This was the first time since the contract purchasing plan was established in 1985 that it was completed above quota. Quotas were exceeded in Xinjiang, Shandong, Henan, Anhui, Sichuan, Hunan, Shanxi, Jiangxi, Gansu, Tianjin, Beijing, and Qingdao. The income of farmers who grow cotton increased by about 650 million yuan over last year—130 yuan per household. Concerned departments calculate that cotton production should develop steadily in 1992, and that the area devoted to cotton cultivation should increase somewhat.

**Report on Fighter Plane Unit in East***HK1812145491 Beijing ZHONGGUO XINWEN SHE  
in Chinese 1041 GMT 15 Dec 91*

[Report by Duan Bayi (3008 0360 0001)]

[Text] Beijing, 15 Dec (ZHONGGUO XINWEN SHE)—The shining silver lights and the deafening roar of aircraft have often turned the East China Air Zone into another world. This reporter recently visited the Air Force unit there for an interview, and felt an intense yet orderly atmosphere.

On the airfield, the pilots, who wore yellow flying suits and flying helmets, kept running to the fighter planes, and one by one the high-speed and high-altitude fighter planes took off.

An Air Force officer said they were studying and borrowing air combat experiences from foreign armies, stepping up research on tactics and techniques, and improving the quality of training. Since this year, the unit's training has been markedly strengthened; it includes transregional long distance "fighting in one place after another," training for responding to sudden incidents in a state of emergency, and other capacities.

Beside a fighter plane, this reporter interviewed a young pilot 22 years of age. The young man told this reporter that all the pilots of his unit have achieved university education qualification. All the pilots are all-weather pilots capable of flying four kinds of aircraft in complicated weather day and night. This young man had 700 flying hours and is a China Air Force Seventh Aviation College graduate. He said one of his peers has 2,000 flying hours.

When a large group of planes took off for training in the blue sky, the accompanying officer briefed this reporter on the "Du Fengrui Group"—the heroic Air Force unit which was widely known at home and abroad in the 1950's.

The "Du Fengrui Group" received its name from the CPC Central Military Commission, and has a history of 42 years. In 1958, the unit's 25-year old airman Du Fengrui piloted a Jian-5 jet fighter and downed two American-made F-86 fighter planes from Taiwan's air force, attracting world attention.

According to information, this unit twice fought in Korea, was sent to Fujian 12 times for combat, and was deployed in 13 provinces and cities in the country to safeguard the motherland's airspace. The unit has a solid work style and strong will, and 13 pilots have been received by Mao Zedong, Zhou Enlai, Jiang Zemin, Deng Xiaoping, or Li Peng. In 1966, nine of the unit's pilots flew their fighters through the thick cloud caused by the explosion of China's first hydrogen bomb, carrying out various experiments.

Accompanied by a base officer, this reporter visited the air duty club, which was to provide recreation for pilots.

The club has karayoke facilities, electronic games, billiards, chess rooms, and a library. In addition, there are sports facilities such as gyms.

"Our work is to ensure that pilots can wholeheartedly devote themselves to training," said the officer at the base's air duty station, "and today's pilots have said goodbye to traditional recreations."

According to this officer, in recent years, the station has won 60 advanced titles and an assessment championship in various technological competitions organized by the units of various levels in the military region.

At the end of the visit, a person in charge of the unit said: "The world generally recognizes two conditions which a pilot must have to be outstanding: first, ideological awareness; second, flying technique. For a long period to come we will put flight training in the first position and strengthen the drilling of air combat techniques and tactics, including those for dealing with sudden incidents, thus protecting the motherland's airspace."

**Military Subdistrict Promotes Militia Building***HK1112073591 Beijing RENMIN RIBAO in Chinese  
3 Dec 91 p 3*

[By Wei Ruiming (7614 3843 2494) and Wang Genrong (3769 2704 2837): "Party Committee of Xuzhou Military Subdistrict Does Good Job in Building Militia"]

[Text] Every year, the Xuzhou Military Subdistrict CPC committee in Jiangsu Province makes a concerted effort to do first-class work and makes new achievements in building militia organizations. Every year since 1985 the subdistrict CPC committee was named an advanced unit in militia work. In early 1990, it was named a "national advanced unit in building militia and reserve forces" and was commended by the Ministry of National Defense.

In order to promote the work of the local people's Armed Forces departments, subdistrict Commander Liu Dingming and Deputy Commander Zhang Xingqian separately led work teams to examine the work of all the 11 county (city, district) people's Armed forces departments in Xuzhou and joined the relevant civilian departments in formulating the work responsibility system for the people's Armed Forces departments, which were thus required to be responsible to both the civilian and military leading organs. This greatly promoted the regularization of the people's Armed Forces departments' work.

A few years ago, the military subdistrict began to organize activities "allowing both the Army and the people to rest assured." They required militiamen and military personnel on reserve duty to help conscript local young people to solve their questions and difficulties and help military personnel on active service and their parents to rest assured. In order to do a good job in this work,

Political Commissar Fan Qiyuan and Political Department Director Zhang Hongfu led a work team to militia organizations in various counties, townships (towns), villages, and enterprises to explain the significance of "both sides rest assured" activities and also to set forth strict requirements. In past years, 80,000 militiamen in Xuzhou formed mutual-help relations with more than 20,000 officers and servicemen on active service. Among

them, 9,463 people won merit citations or commendations. A large number of models emerged, such as Zhang Qi, an all-Army pacesetter in emulating Lei Feng and one of the 10 outstanding youths in the country; Sun Jianqiu, outstanding party cadre of the whole country and the whole Army; Li Jingqi, outstanding squad leader of the whole Army; and Han Jingwen, a courageous good soldier.



## NORTH REGION

### Shanxi Grassroots Reform Model Detailed

92CM0091A Taiwan SHANXI RIBAO in Chinese  
8 Nov 91 pp 1-2

[Article by Jin Xuan (2516 6513): "Another Innovation Comes From Our Rural Areas—Examining the 'Twin-Council' System as Practiced in the Southern Suburbs of Taiyuan Municipality"]

[Text] In recent years, in the course of advancing rural reform, numerous cadres and the masses in Taiyuan's southern suburbs decided to institute a system of "councils of village representatives" and "councils of party members" (in short, the "twin-council" [TC] system). This was evolved in actual practice and is initiating a new way of enhancing the buildup of our rural organizational structure with the party branch as its core, of further improving the buildup of democratic government in the rural areas, and of improving relations between the party and the masses as well as between cadres and the masses.

#### I. The TC System is a Great Innovation Created by Grassroots Cadres and the Masses

The southern suburbs of Taiyuan Municipality are located in a part which has urban as well as rural areas. The area is fairly well-developed economically, has a population of 295,000, comprises 298 natural villages, and has 320,000 mu of arable land. Initiation of the household responsibility system by the Third Plenary Session of the 11th CPC Central Committee greatly aroused peasants' production enthusiasm. The wave of reform, opening to the outside world, and development of a socialist planned commodity economy also swept along the local masses in the mighty current of a reform that opened up opportunities for innovation. Establishment and operation of the new economic system and renovation and liberation of ideological concepts split open the former administrative patterns of "uniting government administration and commune management" and the "three-level ownership with the production team as the basic unit." This liberation was a powerful impetus toward rural economic development, as it also objectively demanded that corresponding reforms be enacted in the management functions and methods of the rural organizations and in the patterns of their activities. Because of the sluggish progress in the reform of the political system in the countryside during the period of transformation from the old to the new system—combined with a certain period in which the development of a grassroots-level organization in the countryside and ideological-political work among the grassroots cadres and peasants were neglected—there arose in many villages a new situation. There were a whole series of new problems urgently requiring resolution, such as ineffectual administrative control, increasingly noxious conflicts between cadres and the masses, and ideological confusion among the masses; however

they were difficult to resolve. First, a considerable number of village committees were lax and weak, or even paralyzed or semi-paralyzed, they were incapable of conducting organizational, propaganda, and educational work among the masses in a normal way. Second, the party branch could not exercise its core leadership function, and party members could not bring their role as exemplary vanguard into play. Many party branches and many party members did not know what to do or how to do anything. Third, development of the commodity economy also caused some negative effects, especially in that the principle of exchange in the commodity economy deeply penetrated political life. As a consequence, some cadres became seriously separated from the masses. They converted their positions into some kind of special commodity, and their only object became self-enrichment, this evoked strong resentment among the masses. Fourth, some cadres would not consult the masses when problems came up, but would decide matters subjectively and arbitrarily. Village affairs were not handled openly, policy decisions were made and administration conducted in undemocratic ways, little lucidity was shown when affairs were being handled, and the democratic rights of the masses and their functions as masters of their own affairs were not given a chance to assert themselves. All this aggravated the misunderstandings and conflicts between cadres and masses. While on the one hand the peasants were well satisfied with the political line, principles, and policies of the central authorities, on the other hand, due to the presence of all these problems, they resented the fact that some of the grassroots organizations were unable to effectively assert and implement the party's political line, principles, and policies. On the one hand they felt well satisfied with the economic development and the rising standard of living, but on the other hand they expressed anger at the work methods, working style, and corrupt acts of some cadres. There have been strained relations between the party and the masses in a considerable number of villages, and villagers in some specific villages have even joined together in crowds and applied to lodge complaints with higher authorities, thus becoming a major element of instability in the rural areas. Looking at the situation from the standpoint of the rural grassroots cadres, despite their arduous endeavors to fulfill the various demand-style tasks handed to them by higher authorities, and despite their forcing themselves against their will to "pressure grain deliveries, impose levies, and see to abortions, they still frequently met with little understanding or support from the masses, and they too were simmering with anger and were bitter as they could not visualize any sound strategy that would help them out. How to establish a rational administrative and supervisory mechanism, how to raise the fighting capacity of the village-level organizations and improve the party-masses and cadres-masses relationships, how to fully mobilize and correctly guide the peasant masses in their demand for democratic administration and in their eagerness to participate in government and counsel political affairs: all these questions have become primary tasks of those entrusted with the

handling of rural affairs, a task that urgently need attention. After giving this matter much thought, and after much exploratory study, the numerous rural cadres and the masses of the southern suburbs of Taiyuan Municipality, in the course of innovative and experimental practice, were the first to come up with a feasible method of having party members and the masses participate in administrative deliberations, and of instituting democratic administration and democratic supervision, their experiments to accomplish these important tasks have indeed been successful.

The growth of anything new must always initially pass through a developmental stage. The TC system of the southern suburbs also underwent a series of transformations, from unconscious to conscious pursuit, from a loose structure to well-organized standardization. Creation and development of the system has proceeded more or less in three stages:

1. The stage of germination. In 1984, when Xicaozhai Village, Lunabao Township, elected new young party branch secretary Fan Lier (2868 0362 0334), they felt that he had not had enough work experience, and so, in order to avoid mistakes in important policy questions concerning village affairs, they invited capable and well-esteemed old cadres, old party members, and old peasants of the village to form a "Zhuge Liang Club" [wise men's club] to help the party branch secretary arrive at proper plans and policies. This "triple group" was then asked to deliberate jointly on every major village matter. This was the germination of the council of party member representatives. In 1985, the village committee of Xijie Village, Jinyuan Township, reviewed and drew a lesson from the undemocratic ways and the many mistakes of the former leadership team, as well as from the strained relations between cadres and masses. They then asked representatives of the villagers to participate in and study important village affairs and activities, to help the village committee solve knotty problems. This was the first sign of a council of village representatives. Even though their TC systems were only in embryonic forms and their activities were not yet formalized, it is here that the miracle came about after a certain period of actual practice. There were less complaints from Xicaozhai Village and from Xijie Village. There was a better understanding and better mutual support between cadres and masses. The party branch and the village committee spoke with greater effect, and the village economy quickly developed. All of this was in sharp contrast to neighboring villages. This condition was food for thought for some township leaders. They cautiously supported the newly emerging thing, but did not have the courage to widely apply it, merely carefully investigated and observed the phenomenon at their "science entrance stations."

2. The stage of development. The years from 1986 to 1988 were years of continuous development of the TC system in the southern suburbs. In 1986, at Nanwayao, Changgongli, Wufuying, and Haojiagou, Haojiayang, all villages in the Jinyuan township of the southern suburbs,

conflicts between cadres and masses sharpened, and there was a dramatic increase in collective appeals to higher authority to lodge complaints concerning such problems as the contracted obligations of village-run enterprises and orchards, permission to use land for residential purposes, and financial administration. Investigators sent by the town and township party committees and the government indicated that although there had been a problem with a few cadres in these villages who had privately enriched themselves by misusing the powers of their offices, the bulk of the problems resulted from party branches and village committees being weak and lax, cadre policies being undemocratic, and from affairs that were handled with little lucidity. Many things that should have been told to the masses were not told, and studies and policy decisions in which the masses should have been allowed to participate were handled without them. All this led to misunderstandings and dissatisfaction among the masses. The investigation also revealed that these kinds of problems had been resolved very well at the villages of Xijie and Xicaozhai, thanks to the activities of party member representative councils and villager representative councils. The investigators found the methods employed at Xijie and Xicaozhai villages highly enlightening. After discussions and studies, the village committee and the village government of Haozhuang Village, Jinyuan Township, became convinced that asking in party member and villager representative councils at Xijie and Xicaozhai villages was indeed an effective way to achieve open conduct of affairs, democratic policy decision-making, prevention of misuse of power for private gain, and the resolution of conflicts between cadres and masses. Finally, they applied the method employed at Xijie and Xicaozhai villages to Haojiagou, Wufuying, and Zhaojiashan villages, where relations between cadres and masses had been strained and where the complaints lodged with higher authority had reached serious proportions. Application of the said method indeed achieved excellent results. In 1988 in particular, when the "(Trial) Law Governing the Organization of Villager Committees" was implemented and democratic village governments were set up, launching the establishment of rural democratic government, "village affairs were to be primarily handled openly and all matters handled in a democratic way and under the supervision of the villagers," the village and township party committees at Jinyuan Township, Haozhuang Village, etc., applied the said method on a broader scale and improved it. They then formally designated the councils as villager representatives or party member representative councils, formulated statutes and enforcement measures, and had all TC activities develop in a more standardized form.

3. The stage of dissemination and improvement. The outstanding successes achieved in the promotion and adoption in some of the villages and townships attracted the serious attention of important leading comrades in the district's party committee, people's congress, and government. They became convinced that this method was a major breakthrough in the direction of enhancing

the rural organization with the party branch at its core and of developing democratic government in the rural areas. In the spring of 1989, following relevant investigations and studies, they held an on-the-spot meeting at Haizhuang Village, where they called on all towns and townships throughout the district to promote TC activities. In May 1990, after a special study by the standing committee of the district party committee, it was decided at the organizational work conference of the district party committee to make dissemination, improvement and perfection of TC activities a major component of efforts to enhance the development of the rural organization with the party branch as its core. The system was also to serve to implement the spirit of the Sixth Plenary Session of the 13th CPC Central Committee, and was to constitute an important measure to improve the relationship between the party and the masses. In September, the district party committee again called a meeting for the review of experiences in the operation and perfection of the TC system, and promoted further dissemination and in-depth development of TC activities. To date, the village party branches in 95 percent of the 237 administrative villages throughout the district have established systems of party representatives or party member councils, and 94 percent of the village committees have established the system of villager representative councils. Over 40 percent of these villages have perfect sets of rules and regulations, have conducted deliberations at a high quality level, and have operated with excellent results.

## II. Methods of Applying the TC System; How It Functions in Actual Practice

The TC system is spread all over the southern suburbs of Taiyuan Municipality like a carpet of exquisite flowers. Though each village has its particular form of deliberative councils, the basic methods employed are more or less the same:

1. Choice of good representatives. The quality of the village representatives has a direct bearing on the effectiveness of the councils and the role they play, which makes selecting good representatives a matter of primary importance. Specific qualifications for representatives are: ardent love of the party, socialism, and the collective; a willingness to work for the masses; a sense of justice and righteousness; prestige among the masses; a certain educational level; and a capability of participating in government and of counseling on administrative matters. Specific methods of selecting representatives are: Villagers must first propose candidates in a democratic way; the party branch will then make a formal determination of candidates (their numbers shall be 130 percent of the ultimate number to be selected), and villagers shall then finally cast their votes. The basic number of candidates from one village shall be 10 (the secretary of the party branch and the chairman of the village committee must be representatives). For every 100-person increase in the village population, one additional representative may be elected; if even numbers

result, the number should be made odd. Some representatives are elected by the distribution of voting cards; others are elected according to trades. The term of office is generally two years, but reelection is allowed. The whole body of party members generally participate in the party member council. In party branches from large villages, participation in the election of party member representatives and the relevant election procedure is the same as the procedure for the election of villager representatives.

2. Clarification of the character of the two councils, of topics for deliberation, and of the powers of the two councils. With regard to the character of the two councils, they are forms of democratic political organization, participated in by persons inside and outside the party and by the masses. They are to be consulted and are to counsel, so as to achieve democratic supervision of party and village affairs, and so as to have the villagers exercise, under the leadership of the party, self-administration, self-education, and being truly masters of their own affairs. Both councils must be under the leadership of the village party branch. The main items to be deliberated and studied by the councils are: the village's annual work plan, the financial budget, the final accounting of revenues and expenditures, the distribution of year-end income (including village cadre wages), production contracts in the various trades, land requisitions, development of new enterprises or new lines of business, plans for the appearance of the village, examination and approval of land for residential purposes, employment of surplus manpower and the settlement of new personnel moving into the area, items requiring comparatively large expenditures, and other affairs with comparatively large impact. Every village shall generally endow its representatives with six rights: the right to counsel regarding major village affairs, the right to examine and deliberate plans and reports of the party branch and the village committee, the right of supervision over village cadres' administrative acts and policy implementation, the right to propose transfers or dismissals of unqualified cadres, the right of democratic management of village affairs, and the right to recruit and transmit opinions and suggestions of the masses. It has also been prescribed that upon the joint request of four council members, the council shall call a meeting and shall institute inquiries into the work of the village committee.

3. Periodical TC meetings according to a definite procedure. In conducting TC activities, all action shall conform to the principle of democratic centralism. The specific methods shall be: Items for deliberation must first be determined by the party branch or village committee. Internal party affairs shall be deliberated by the party member council, while general village affairs are to be deliberated by the villager representative council. Major village affairs should first be deliberated by the party member council, and the result of its deliberations shall then be submitted to the villager representative council for review and consideration. Finally, the party branch



of the village committee shall make the ultimate decision. All TC activities require a strict institutional system, and meetings shall be called according to regulations. Such meetings are generally either periodic or unscheduled meetings. Periodic meetings may be monthly, quarterly, or semi-annually. Unscheduled meetings shall generally be called in cases of urgent or major events, and are to be called ad hoc by the party branch or village committee. TC activities must not take the place of village assemblies. Major problems that involve the interests of all villagers (such as changing the due date of elections) must be passed by the village assembly.

The TC system has a variety of different functions and roles. Since its inception in the southern suburbs, the system has achieved tangible and comprehensive social benefits.

First, it has promoted the development of a village-level organization with the party branch as its core. It has created a situation of close coordination between all mass organizations, with the party branch as core and with the backing of village committees and economic cooperatives. The TC activities are instituted under the leadership of the village party branch, and they are beneficial for the assertion of the core functions of the party. At the same time, such village organizations as the party branch and the village committee are placed under the supervision of the party member and villager representative councils, who will confirm good representatives and eliminate the unfit, so that the composition of these organizations will improve and grow ever sounder, and so that the organizations may bring their functions effectively into play. Since 1989 following the deepening of TC activities and the clarification of obligations and rights, the originally weak and lax village-level organizations were spurred to make adjustments. First the party branches in some villages took in hand the readjustment of their own ideology, organization, and work style, and on this basis took on the readjustment of its work concerning the village committees, village economic cooperatives, and the Youth League. It "readjusted" incompetent members of the leadership group and replenished the leading group with new forces. During the last two years a total of 110 party branch members and 139 village committees members were subjected to such "readjustments," and 66 economic cooperatives and 64 Youth League organizations were restructured on a sounder basis. A group of politically conscious, capable, and well-esteemed middle-aged and young people—all key personnel—have replenished the village-level organizations and enhanced their fighting capacity. In response to the appeal from the numerous party member and villager representatives the various villages have provided more extensive rules and regulations. They have formulated and perfected—as applicable for party members—the "system of three meetings for each item," "rules to be observed in cadre work," "detailed regulations governing the work of village committees," "detailed regulations governing the work of economic

cooperatives," "a system of openness in financial affairs," and "village rules and people's undertakings," all on a broad scale. Under the impetus of the TC activities, the work of all village-level organizations and their work procedures have gradually become standardized. Responsibilities have been clarified, relations have been straightened out, and there have been fewer conflicts and disputes over trifles. In actual work, a new situation has gradually taken shape in village administration, where the party branch has become the core and close coordination has been established between the various village organization. Cohesion between the various village-level organizations, with the party branch as their core, as well as their attractiveness and their fighting strength have all been strengthened, and optimization of effectiveness in all village work has been achieved.

Second, it has promoted the development of democratic government in rural areas, increased opportunities for better insight into how affairs are handled, increased the scientific nature of policy decisions, and raised the enthusiasm among peasant masses to assert themselves as masters of their own affairs and to participate in government and counsel on governmental affairs.

A. It strengthens the democratic consciousness of cadres and masses and guarantees the masses' right to be masters of their own affairs. Implementing the TC system restrains a small number of rural cadres from acting arbitrarily and misusing their powers. It has the rural cadres gradually acquire the custom of allowing village-level leadership groups to collectively examine all major questions and become accustomed to democratic policy decisions and democratic administration. It raises the political consciousness of village cadres, enables them to have confidence in and rely on the masses, and will have them actively solicit and accept opinions and suggestions from the two councils. Because the two councils provide an arena where the numerous party members and villagers can express their opinions and a channel for democratic administration, the numerous party members' and villagers' enthusiasm for participating in government and for counseling on political matters is brought fully into play. On their own initiative, villagers report on conditions and present suggestions, and demands to villager representatives, party branches, and village committees. Party members and villager representatives widely and enthusiastically solicit and gather opinions from villagers, and bring these opinions, suggestions, and demands to the council meetings, which is beneficial for the realization of villagers' self-administration under the leadership of the party and for having the masses be truly masters of their own affairs.

B. It increases lucidity of official affairs. Thanks to TC activities, whenever the party branch, village committee, and rural economic cooperative organize an important activity, now not only do members of the leadership of the village-level organization know about it, but party member and villager representatives also know. Also,

through the propaganda of the party member and villager representatives, it will be basically known among all villagers, a fact which contributes to better understanding and trust, reduces feelings of estrangement and misunderstandings, and reestablishes good relations between the party and the masses and between cadres and the masses.

Wuchengrun Village, Qinxian Township, is a village in the southern suburbs that has a very prosperous collective economy. When this village built a large university a few years ago, the village committee did not openly reveal how the construction was financed. Villagers strongly criticized this fact, suspecting that someone had secretly enriched himself in the deal. In 1990, in response to criticism by the villager representative council, the village committee gave a public accounting of every expenditure, which completely dispelled all suspicion and dissatisfaction among the masses.

C. It enhances the scientific character of policy decision. By putting the TC system into practice, policy decisions on major activities that were formerly decided by a small group of people have become collective decisions, what formerly had been subjective assumptions became subjects of scientific study and demonstrated proof. In this way, willfulness, blindness of action, and oneness on the part of village cadres is avoided, efficiency enhanced, and village administration rendered increasingly scientific. In the spring of 1990 a cadre of Songzhuang Village, Haozhuang Township, planned to invest 800,000 yuan to construct a carbon manufacturing plant, but the plan was disapproved when it was submitted to the villager representative council. There were three reasons: first, there was no assured market for the product; second, the village had only 300,000 yuan and so would need to borrow 500,000, and would need a very long repayment period; and third, the village already had five low-profit enterprises that required capital in order to tap potential and transform. The village committee accepted the opinion of the representatives, gave up its original plan, and instead directed its financial and material resources, as well as its energy, to transforming the existing enterprises. The efficiency of the five enterprises improved distinctly, and the results achieved were even better than the results from the new project would have been.

Third, it has enhanced the service consciousness of cadres and party members, promoted establishment of honest and clean governments, and improved the relationship between party and the masses and between cadres and the masses. The party member representative council gave full scope to the role of the many party members in their eagerness to participate in government and counsel on political affairs. It overcame the situation of some years ago in the rural areas, when there was a saying that "the difference between being a party member or not being a party member is only five fen." It strengthened many rural party members' sense of glory and mission and of acting as exemplary vanguard. They set an example in doing voluntary work, building bridges

and repairing roads, raising funds to run schools, reclaiming wasteland and planting forests, and working on a wide variety of water conservancy projects. On their own initiative they proposed having all households jointly help the poor. They guided the masses in attaining common prosperity, and due to their efforts the work of "joint-households helping the poor" in rural areas was more effectively accomplished. The party branches in various villages not only paid attention to a more rational allocation of manpower in the villages, but widely set up a "party member joint households" system by which numerous party members and cadres actively helped impoverished households solve such agricultural production problems as requirements of funds, seed, pesticides, chemical fertilizer, the care of orchards, etc. In order to develop vegetable production, the party branch at Jiajiazhuang Village, Xiaodian Township, decided to invest in building an asphalt road to the vegetable fields. When this was discussed at the party member representative council, all party members, on their own initiative, proposed to lead the project by offering their voluntary labor and thereby reduce the collective investment. They gave 204 person-times of voluntary service and spurred others on, with the result that the entire village contributed 6,000 person-times. The project of laying 4,200 meters of asphalt road to the vegetable fields was completed in only two months. Power is the natural product of social relations. Should restraint or control be lost at any time, power will naturally degenerate. The TC system can be used with benefit for the supervision of power; it enhances the cadres' consciousness of being public servants, their willingness to serve, and their sense of responsibility. It functions excellently as a means of eliminating corruption, and indeed constitutes an anti-corruption, anti-turmoil wall of steel. This mechanism places village cadres' performance under the public supervision of the masses. It supports cadres as it also restricts them. When it comes to hiring, changing residence registrations, family-planning matters, approving land use for residential purposes, etc., it stops unhealthy practices such as using personal influence on those in power, securing advantages through personal relations, feasting, sending presents, etc. In the matter of contract obligations of the enterprises, those that could not meet their contract obligations or that were managed in an disorderly way had penalties imposed on whoever was responsible for the contract, unprofitable enterprises were reorganized. Some persons who had engaged in large-scale feasting and drinking, violated laws or disrupted discipline, misused their power for personal gain, or who had shown themselves corrupt and rotten were impeached; all such persons and cases have been dealt with. Village cadres have become more honest and incorruptible, the social atmosphere has become healthier, and a gratifying situation of mutual understanding, mutual trust, and mutual support between party members, cadres, and the masses has become evident. In the last few years, the number of collective appeals to lodge complaints with higher authorities submitted by peasants of the southern suburbs has declined dramatically. In the first half of 1988

there were 23 appeals, in the first half of 1989 the number fell to 16. In the first half of 1990 the number fell to 4, and none occurred in the first half of 1991.

Fourth, it promoted the economy of the entire district, especially the development of the collective economy, which is beneficial for advancing down the road of common prosperity. The overall benefit of TC activities is that they play a very forceful role in promoting the rural economy:

A. Under democratic supervision, the party's rural policies are being better implemented, the output-related household contract responsibility system has been further perfected, capital construction to improve farmland—neglected for a time—is again viewed as important and is stepped up. There has been a fervor, not seen for many years, to level land, build of water conservancy projects, spread the use of plastic film as protective cover, improve produce quality, and purchase farm machinery and tools, etc. In 1990, agricultural investments throughout the district increased by 7.7 million yuan, development of the collective economy was also raised to its due position, and its management was improved. In 1989, 130 new village-level enterprises were started throughout the district; in 1990 the number grew to 133.

B. Democratization of policy-making gives full play to collective wisdom, reduces errors in judgment, and prevents economic losses. During the last two years, villages throughout the district have accepted over 600 TC opinions and suggestions. As a result adjustment of the rural production structure and the development of the economy gained greater rationality, improved management, and an introduction of scientific knowledge. This again resulted in direct economic benefits amounting to somewhat over 50 million yuan.

C. It straightened out the minds of the people, aroused production enthusiasm among the numerous cadres and the masses, and had people concentrate their energies on modernization projects. Throughout the southern suburbs the rural economy improved rapidly, flourishing more day by day, and peasants' prosperity has generally increased. The TC system has bestowed an abundance of material benefits on the southern suburbs. When China was faced with general economic difficulties in 1990, the gross value of social output of the district reached 870 million yuan, an increase of 19.8 percent over the preceding year. The gross value of industrial and agricultural output was 710 million yuan, an increase of 26.79 percent over the preceding year. Total grain production had was 218 million jin, a net increase of 20 million jin over the preceding year and a net 15 million jin higher than the past record. Local revenue was 48.8 million yuan, an increase of 13.99 percent over the preceding year, and peasants' average per capita income was 859 yuan, an increase of 7.42 percent over the preceding year. As to its economic growth rate, growth

rate of fiscal revenue, and the increase in average personal income, the district ranked among the best throughout the province.

### III. Some Revelations from the TC System

As a creation of the rural grassroots cadres and masses, the TC system has forcefully promoted the healthy development of political affairs, economic affairs, and the social and cultural life in the rural areas. It has provided us with some profound revelations:

Close relations between party and masses and between cadres and masses must be ensured by an effective supervisory mechanism. The "resolution" of the Sixth Plenary Session of the 13th CPC Central Committee pointed out: "Whether we shall be able to maintain and develop for all time flesh-and-blood ties with the masses of the people is a matter that has a direct bearing on the prosperity or decline, survival or death, of the party and the nation." The fact that the CPC is the ruling party provides the party's cadres at all levels with more favorable opportunities to serve the people, but at the same time increases the danger of becoming estranged from the masses. This danger has increased with the present pursuit of reform and opening to the outside world, and the development of a commodity economy. In view of the soul-stirring fierce struggle being waged within and without the country in recent years, we must realize the seriousness of this problem. How to maintain and develop for all time flesh-and-blood ties with the masses has been a major problem during these recent years, one which everyone in the party, high and low, has explored and tried to find a solution to. The TC system is precisely a new thing created in the actual practice by the cadres and masses of the southern suburbs, which suits the national conditions of China, and can be beneficial in solving the said problem. It has built an invisible bridge and bond between party members, cadres, and the masses; it has enabled party members and cadres to regularly hear the pleas, opinions, and demands of the masses; and it has gradually become an effective mechanism for trust in the masses and for linking up with the masses. It has provided an institutional guarantee for implementing the party's mass line. It has placed party members and cadres forever under the supervision of the masses inside and outside the party. It admonished cadres to raise their awareness of being public servants and of having to serve, and it prevents them from taking advantage of special privileges and disrupting discipline, and reduces and prevents the occurrence of corrupt practices. The ways in which these TC activities are carried out comprise components of standardization and education, as well as the imposition of penalties, which will help cadres and party members in their efforts to build up a great wall of steel against corruption and turmoil. If this method is widely disseminated, it is bound to have a tremendous effect on implementing the resolution of the Sixth Plenary Session of the 13th CPC Central Committee, and on forging closer ties between the party and the masses and between cadres and the masses in the rural areas.



Village-level organizations, with the party branch as their core, must broaden their administrative bases and form a mechanism for favorable rotations. The problem of work in and for the rural areas at the present stage is in the final analysis a problem of its comprehensive development. The party must, in accordance with the demands of the fundamental political line of the new time, strengthen the development of village-level organizations with the party branch as their core, fully utilize the self-governing function of the village committees, promote the development of democratic government, educate, guide, unite in solidarity, and organize the peasants, continuously raise agricultural productivity, and promote development of the two civilizations in rural areas. How to enhance the service and administrative functions of the village-level self-governing organizations with the party branch as their core, and how to create a mechanism for favorable rotations, are problems which of necessity must be solved in the more thorough pursuit of the rural reform. The party member council and the villager representative council have strengthened the leading core position of the party branch in the rural areas, and they have overcome the erroneous trend of weakening the party leadership and of doing away with democratic centralism. The party branch has gained strength, and better coordination and unison has been achieved in the thoughts and actions of various leadership groups. With the TC system as its "carrier," the party branch activated the vitality of village-level organizations, improved their administrative and service capability, drew party members and villagers into and organized the perimeter of the party branch, aroused their enthusiasm for participating in government and for counselling on political questions. As a result, the party branch truly changed the masses into a strong supportive element. By this method of operation, all decisions and work of the cadres have the masses' approval, understanding, and support. It has broadened the mass base of administration and raised the prestige and efficiency of village-level organizations. It is beneficial for the organizational leadership of economic production and for the various kinds of activities in the rural areas, and also beneficial for the implementation of the party's various principles and policies in the rural areas.

To strengthen the political development in rural areas in a socialist democratic way, it is necessary to adopt feasible and effective forms. The core of socialist democratic government is for the people to be masters of their own affairs. The socialist cause is the cause of the masses. One can only be truly successful in economic work and in the various types of rural work by relying on the peasant masses themselves, no one else can act in their place. Since the reform of the rural economic structure and the initiation of the output-related household contract responsibility system, there has been a constant increase in the peasants' equality consciousness and their democratic demands. The dispersed nature and great variety of rural production operations have proven that the original forms of realizing democratic

rights through centralized management were by far inadequate. The conditions for using a method by which villagers directly exercise democracy in village affairs are presently not yet ripe in the majority of villages. First, it would not do to frequently hold village assembly meetings, second, with the large membership, it would be very difficult to obtain concise and unified opinions of the villagers. The party member councils and the villager representative councils would find it easy to hold meetings and to get concise and unified opinions. In addition, the arrangement would be helpful in soliciting villagers' opinions, namely through the party members and villager representatives, thus obtaining information on villagers' wishes and demands. The periodic meetings of party councils, villager representative councils, and village assemblies and their organic integration has realized self-administration, self-education, and self-service of the villagers under the leadership of the party. It has helped to realize the objective of having the party lead the people as masters of their own destiny. At the same time, we must also realize that democratic government in rural areas cannot be accomplished in one short move, it is a progressive and accumulative process that must move in step with political, economic, and cultural development in rural areas. In the matter of establishing democratic government in rural areas, one must not separate oneself from the realities in one's eagerness for quick results. However, one must also not wait in a passive attitude, in a state of inertia. It is less permissible to go in for bourgeois democracy and reject and abandon the leadership of the party. Instead, one must be like the cadres and masses of the southern suburbs. One must use feasible and effective forms and, under the leadership of the party branch, fully utilize the functions of the village-level self-governing organizations, guide the masses in administering to themselves and in teaching themselves, and truly realize the right of the people to be masters of their own affairs. Thus in a down-to-earth manner one may advance the course of socialist democratic government in the rural areas.

Democratic administration is the most perfect way to achieve stability in rural areas. China has 800 million peasants, and stability in rural areas is of the utmost importance for a long period of good government and for lasting peace. The TC system, being a form of democratic administration, has made village-level organizations strong and powerful, and it has kept evil influences and unhealthy practices under control. At the same time it has solved many problems at the grassroots through self-education and self-administration, thereby greatly mitigating and resolving conflicts between the party and the masses and between cadres and the masses, reducing appeals to higher authorities to lodge complaints, and eliminating many potentially disturbing factors. It has proven an effective measure for stability, unity, and stable development in rural areas. This kind of stability is not a passive "standing on guard," but rather it is a stability founded on reliance on the masses, closing ranks with the masses, and mobilizing the masses. It is

built on the development of the village-level organizations with the party branch as their core, each bringing its own functions into play, resolving conflicts and problems, promoting a stability founded on the development of democratic government in rural areas. This kind of stability is the effective guarantee for the healthy development of the two civilizations in rural areas.

The masses have an inexhaustible reservoir of wisdom and strength. In their book *The Holy Family*, Marx and Engels pointed out: "Historical events are the enterprise of the masses." The creation of the TC system and its sensational success in its actual application tell us again that history is the creation of the masses. The mass viewpoint and the mass line have guaranteed our party's progress from victory to victory, and the development of socialism is the grand enterprise of the countless people who have gone before us. Socialist reform and opening to the outside world are among the greatest feats since the creation of the world. There are no ready-made formulas to go by when pursuing an enterprise of this nature, and there are even fewer fixed patterns to emulate. Here it is necessary to explore and investigate as one advances, and to bravely advance in actual practice. Workers, peasants, and cadres who in the front line of production, construction, reform, and opening up are continuously creating all kinds of new experiences. How to deal with these innovations of the masses is a fundamental question of standpoint, world view, and party spirit. Our task is to assume the attitude of primary school pupils and go among the masses, go through the actual practice, and study the abundant experiences and the pioneering spirit of the masses. As Comrade Mao Zedong and Comrade Deng Xiaoping have on many occasions taught us, gather with the masses and go among the masses again to keep it up. With this kind of an unlimited revolving, we will gain greater clarity each time round. Things will become more vivid, we will be more abundantly enriched, and our socialist cause will continuously advance.

The TC system is of universal significance. The experiences of the southern suburbs of Taiyuan Municipality forcefully demonstrate this. However, the TC system is still a new thing, and as such it needs to be reviewed, developed, and perfected in actual practice. Cadres and masses must also undergo a process of study, familiarization, and tempering in actual practice. When promoting this method in other areas, it must be adapted to local conditions. It is necessary to start out from the realities of the situation; one must not strive for quick results. However, it is really the first great innovation that has originated in rural areas, and it is a good method and good experience that is well worth disseminating and learning from. This resplendent jewel should widely spread its brilliance throughout the vast countryside, and promote the healthy development of our socialist cause.

## NORTHWEST REGION

### Gansu Regulations on Managing Religious Affairs

92CM0187A Lanzhou GANSU RIBAO in Chinese  
27 Dec 91 p 2

[Interim Regulations on Managing Religious Affairs in Gansu Province Discussed and Adopted at 21st Standing Committee Meeting of Provincial Government on 23 October 1991]

#### [Text] Chapter I General Provisions

Article 1. These regulations are formulated on the basis of related state regulations and in light of the actual situation in Gansu to implement correctly and in an overall manner the policy of freedom of religious belief, strengthen the management of religious affairs, and protect normal religious activities.

Article 2. The various departments in charge of religious affairs under the people's governments at all levels exercise administrative leadership and manage the religious affairs according to law. Their duty is to implement the policy of freedom of religious belief, safeguard enforcement of the Constitution and the relevant laws and ordinances, and coordinate the relations among various religions, within any religion or between any religion and other sectors of life.

Article 3. Religions mentioned in these regulations are Islam, Buddhism, Catholicism, Protestantism and Daoism in Gansu.

#### Chapter II Locations for Religious Activities

Article 4. Locations for religious activities are places where religious personages and believers carry out normal religious activities. Specifically they are Islamic mosques, Buddhist monasteries, temples and nunneries, Catholic or Christian churches, Daoist temples and fixed places for other religions to maintain their religious life.

Article 5. Locations for religious activities must be assigned with the approval of the people's government at or above the county level. Locations for religious activities already approved must be reported and registered with the department in charge of religious affairs of the county (city or district) people's government. Registered locations for religious activities are protected by law.

Article 6. A democratic administrative organ must be established at each location for religious activities to facilitate democratic management of religious, administrative and financial affairs. Staff members in this democratic administrative organ in any location for religious activities must follow the party's leadership, support the socialist system, love the country and the religion, and observe discipline and laws. Enjoying certain prestige among the religious believers, they must be elected by the masses of believers with the support of the local patriotic religious body. Their term is between one and three years, and they may be elected several terms.

running. The masses of believers have the right to replace or recall those who are unsuitable in performing their duties, although their term has not expired yet.

Article 7. Locations for religious activities must be constructed, rebuilt or expanded with the approval of the people's government at and above the county level. State or collective properties and materials must not be used at random for constructing, rebuilding and expanding locations for religious activities. Nor should the masses be arbitrarily forced to contribute to such projects.

Article 8. No individual or organization may make use of any location for religious activities to do anything against the law or commit any crime. Those who try to restore reactionary superstitious sects and secret societies under the name of religion, engage in feudal and superstitious activities, spread rumors, confuse and poison people's minds, endanger people's lives and properties, disrupt social order, undermine unity among the people of various nationalities and jeopardize national unity must be timely reported to public security and judicial departments for actions to deal with them according to law.

Article 9. Various localities for religious activities must act in strict accordance with relevant state regulations on publication and distribution when they sell religious books, journals, pictures, pictorials, and video or audio tapes in such locations. No location for religious activities or individual is allowed to edit, print or publish any religious book, journal, picture, and pictorial or dub or sell video or audio tapes on religious matters.

Article 10. Loudspeakers should not be installed in places for religious activities to chant scriptures and preach to the point of disrupting public social order and disturbing the work, study, and life of surrounding units and people.

Article 11. No unit or individual should promote atheism in places for religious activities. Nor should locations for religious activities and religious clerical personages preach, evangelize and propagate theism outside these locations.

Article 12. The number of religious clerical personages in locations for religious activities must be adequately determined according to the needs in carrying out religious activities and in developing production to achieve self-support. The fixed number of religious clerical personages should be reported to the departments in charge of religious affairs of the county, (city or district) people's government for approval.

Article 13. When an outsider wishes to stay in a location for religious affairs, he or she must submit his or her identification card and certificate issued by the people's government at and above the township level, and apply for a temporary residence permit. A person without any identification is strictly forbidden to stay in any location for religious activities.

Article 14. Locations for religious activities should act realistically and in line with local conditions to run some facilities for production, services and public welfare to support themselves and reduce the burden of the masses of religious believers.

Article 15. The properties, the religious and rental income and the income from production of locations for religious activities belong to those locations or the churches. Under no circumstances should any unit or individual seize such properties without any financial compensation or embezzle such incomes.

Article 16. Locations for religious activities should manage their financial affairs in a democratic way and run their religious affairs with diligence and frugality. They must set up and improve their relevant system for financial management, and accept the supervision by the masses of religious believers. The clerical administrative staff should not illegally use or seize the properties in the various locations for religious activities.

Article 17. Measures for the maintenance of social order and for the prevention of fire should be worked out to strengthen the control of all fire and water resources, electric power supplies and various kinds of inflammable or eruptive materials to prevent incidents and disasters.

### Chapter III Religious Activities

Article 18. Religious activities which reflect religious faiths, ceremonies and rites on the basis of religious scripture or customs and take place in locations for such activities or in homes of religious believers such as deification, incantations, incense burning, worshipping, praying, sermonizing, evangelizing, mass offering, receiving baptism, initiation into monkhood or nunhood, fasting, celebrating religious festivals, extreme unction, expiating the sins of the dead and memorial services are considered normal religious activities.

Article 19. The state protects its citizens' rights of freedom of religious beliefs and their normal religious activities according to law. No organization or individual is allowed to interfere with such activities.

Article 20. Religious activities must be carried out on a small scale, in light of local conditions and in a scattered manner. Religious activities in any location not assigned for such activities or those which go beyond a county, prefecture or province must be first approved by the county (city or district), prefectural (zhou or municipal) or provincial department in charge of religious affairs.

Article 21. Religious activities must be carried out within the scope permitted by state laws and policies. Religious activities must not interfere with state administration, judicature or education; hamper freedom of marriage and family planning; or affect the order in which work, production and the life of the people are organized.



Article 22. Religious activities must be carried out by adhering to the principle of "acting as one pleases and that of noninterference in each other's affairs and of mutual respect." It is necessary to promote equality and unity among the various religions and the various sects of a religion and within a particular sect. No religion or sect is allowed to enjoy any special privilege to dominate over another religion or sect. Nor is it allowed to establish a new religion or new sect.

Article 23. Donations, offerings, consecrations and contributions should be made voluntarily by religious believers. Arbitrary exactions of any form is forbidden.

Article 24. Preaching activities by any self-styled clergy and other illegal preaching activities are strictly forbidden. Illegally operating bible schools, monasteries, convents and seminaries should be banned according to law.

Article 25. Under no circumstances should any abolished feudal privilege and system of exploitation and suppression be restored under any pretext or in any form.

#### Chapter IV Religious Clerical Personages

Article 26. Religious clerical personages are citizens with religious faiths, who assumed certain religious posts and perform their duties in various religions.

Article 27. After being carefully assessed, religious clerical personages must be appointed or ordained according to the regulations in the particular religion, and registered with the department in charge of religious affairs of the county (city or district) people's government for the record. Those who have not been appointed, ordained or registered should not perform religious duties.

Article 28. Generally religious clerical personages should be appointed or ordained within one's own county (city or district). If there is no suitable candidate in the local community and someone must be appointed or ordained outside the county, prefecture or province, such case must be reported to the county (city or district), prefectural (zhou or municipal) or provincial department in charge of religious affairs for approval.

Article 29. Religious clerical personages should cherish the motherland, support the Communist Party of China and socialism, safeguard national reunification, social stability and unity, bring into full play the fine traditions of one's own religion and actively participate in the development of socialist modernization.

Article 30. In the course of performing their duties, religious clerical personages should set good examples in observing the Constitution, laws and policies, consciously wage struggles against all unlawful and illegal activities, and carry out normal religious activities within the scope of state laws and policies.

Article 31. When a religious clerical personage violates the law or becomes incompetent in performing duties

during his or her tenure, he or she may be dismissed or relieved of his or her duties according to the regulations and customs of the particular religion.

Article 32. While receiving re-education through labor or serving a prison term, a religious cleric cannot perform his or her duties. After receiving re-education through labor or finishing serving his or her prison term, he or she cannot perform any religious duty without repeating the procedure of being appointed, ordained and registered.

#### Chapter V Religious Organizations

Article 33. Religious organizations are patriotic religious bodies at all levels which have been checked and approved by and registered with the government department of religious affairs with the screening and concurrence of the government department of civil administration. They include the China Islamic Association, the Buddhist Association of China, the Chinese Patriotic Catholic Association, the National Administrative Commission of the Chinese Catholic Church, the Chinese National Christian Three-self Patriotic Movement Committee, the Christian Council of China and the China Daoist Association.

Article 34. The patriotic religious organizations at all levels are mass organizations which represent the legal rights and interests of the religious circles and the masses of religious believers. They serve as a bridge built by the party and the government to link and unite with and educate the religious circles and the masses of religious believers. They constitute an organizational guarantee for the implementation of the policy on religions and the normalization of all religious activities. Their basic tasks are as follows:

- (1) Help the governments at all levels implement the policy of freedom of religious beliefs.
- (2) Help the masses of religious believers and religious personages continuously raise their awareness on patriotism and socialism.
- (3) Give guidance and manage various locations for religious activities.
- (4) Coordinate and handle relations, and maintain unity within a specific religion or between one religion and another.
- (5) Reflect the aspirations and demands of the religious circles and the masses of religious believers.
- (6) Organize and encourage religious personages to study and implement the policies and ordinances of the party and the state.
- (7) Help the government train and educate patriotic religious clerical personages.
- (8) Unite with and guide the masses of religious believers to energetically develop socialist modernization.
- (9) Coordinate with the relevant departments to promote friendly contacts with others in the religious field.
- (10) Administer religious affairs well.

Article 35. Various patriotic religious organizations follow the leadership of the department in charge of

religious affairs of the government at the same level. Complying with the regulations of their own organization, they must carry out their own work independently.

Article 36. Personnel of the various patriotic religious organizations are elected through democratic consultation according to the regulations of one's own organization.

Article 37. No one should establish any religious organization without the approval of the government department in charge of the religious affairs.

#### Chapter VI Foreign Affairs

Article 38. Religious organizations and locations for religious activities should maintain independence and keep the initiative in their own hands, and implement the principle of mutual respect, equality and friendship in their contacts with foreign countries. They must prevent any religious organization or individual outside Gansu from controlling religious affairs in the province.

Article 39. Foreigners may participate in any religious activity as ordinary religious believers at any location approved by the government for religious activities open to foreigners, but they are not allowed to preside at any religious activity without the approval of the department in charge of religious affairs and the religious organization at and above the county level.

Article 40. No religious organization or individual outside Gansu may circulate religious pamphlets and audio or video tapes inside or outside any location for religious activities to win more religious believers.

Article 41. Religious organizations and locations for religious activities may accept limited amount of donations, consecrations and contributions which are offered by religious organizations and believers outside Gansu without preconditions according to the habits of the particular religion. Any large amount of donations or contributions of similar nature must be reported to and approved by the bureau of religious affairs under the provincial people's government or the State Council.

Article 42. No religious organizations, locations for religious activities or individuals should ask, in one form or another, any religious organization or believer outside Gansu for money or any donation. Nor should they accept any religious subsidy or fund from any source outside the province aimed at achieving the goal for infiltration.

Article 43. Based on the agreements made by relevant departments, religious organizations and locations for religious activities must consciously do a good job in receiving friends from the religious circles outside Gansu and foreign tourists. In receiving these friends and tourists, they must neither humble nor pert, and they should show civility, politeness, enthusiasm and friendliness.

#### Chapter VII Supplementary Provisions

Article 44. In the course of implementing these regulations, all the departments which handle religious, judicial and foreign affairs and deal with minority nationalities, land, urban construction, journalism, publication, historic relic, parks and woods, public security, culture, tourism and environmental protection must take the initiative to closely coordinate with one another and solve their existing problems on time.

Article 45. Those who violate these regulations should be separately dealt with by various administrative departments in accordance with relevant laws and ordinances. Those who hamper security administration should be punished by the local public security department. Those who violate the penal code should be called to account in accordance with law by the judicial department.

Article 46. The Gansu Provincial Bureau of Religious Affairs is responsible for interpreting these regulations.

Article 47. These regulations go into effect on the day of their proclamation.

#### Xinjiang Circular Urges Enterprises Invigoration

OW2512042291 Urumqi XINJIANG RIBAO in Chinese  
7 Dec 91 p 1, 3

["Text" of "Circular on Further Enhancing the Vitality of State-Owned Large and Medium-Sized Enterprises Issued by the Regional People's Government"]

[Text] To further improve this region's large and medium-sized enterprises, the regional people's government recently issued the "Circular on Further Enhancing the Vitality of State-Owned Large and Medium-Sized Enterprises." The full text follows.

State-owned large and medium-sized enterprises constitute a pillar for the national economy and the main source of state revenue. Further increasing the efficiency of state-owned large and medium-sized enterprises will have a great effect on strengthening the region's economic power and promoting social development and raising the living standards of people of various nationalities. Constantly enhancing the vitality of large and medium-sized enterprises and improving their economic results will also have a great effect on consolidating the system of public ownership as the main body, preventing peaceful evolution, and consolidating and developing the socialist system. Seriously implementing the guidelines of the central work conference and the State Council's "Circular on Further Enhancing the Vitality of State-Owned Large and Medium-Sized Enterprises," further strengthening the vitality of state-owned large and medium-sized enterprises in this region, and improving their economic results, the circular sets forth the following requirements:

1. It is essential to increase investment for technological transformation of various enterprises and promote their technological progress. Starting in 1992, the state and

various enterprises should increase funds for technological transformation by a relatively large extent. The increased portion of the amount of annual investment for fixed assets in the autonomous region and various localities should be used for technological transformation. A special technological transformation fund should be established by combining the increased portion of annual investment with the original regional funds for the technological transformation of industrial and transportation enterprises to guarantee the technological transformation of state-owned large and medium-sized key enterprises. Various enterprises should be encouraged to use more of their own funds for technological transformation.

2. It is essential to relax controls and simplify procedures for examining and approving technological transformation projects. A system of joint examination of technological transformation projects should be established. Projects with a total investment of more than 3 million yuan and the importation of technologies for those projects will be examined jointly by relevant departments designated by the regional economic commission and are to be approved by the commission. Projects with a total investment of less than 3 million yuan will be approved by departments of various prefectures, autonomous prefectures, and cities in charge of those enterprises after being examined jointly by concerned departments. Enterprises may make their own decisions on carrying out technological transformation to promote production regardless of the scale of projects if they use their own funds for such purposes, including the enterprises' own funds, or funds obtained through the establishment of lateral ties or the issuance of debentures. Enterprises should report such technological transformations to departments in charge of supervising those enterprises, and to the regional economic commission for the record. Technological transformation projects decided by enterprises themselves will also be included in the regional technological transformation plans for various levels. The increased profits as a result of technological transformation carried out by enterprises with their own funds should be totally reserved by those enterprises for a period of three years.

3. It is necessary to gradually reduce the scope of the mandatory plan. We should selectively and gradually release part of the mandated products according to the tolerance level of the enterprises and the market. We should practically ensure the supply of energy and principal raw materials required for production of the mandated products. If we cannot supply as planned and the enterprise has to make its own purchases, the relevant planning department should correspondingly curtail the mandatory role of the enterprise, and let it make its own production plans to produce and sell the products. The enterprises may also fix their own prices rather than use those prescribed by the state and the autonomous region. A production enterprise and an operational unit (consumer) should sign a contract according to the mandatory plan. If a production enterprise fails to meet the

quality, variety, specifications, and delivery date stipulated in the contract, sells a prescribed product outside of the plan, or refuses to implement the state mandatory plan, or if the operational unit (consumer) fails to purchase a product as contracted, economic sanctions should be enforced according to the terms of contract. Apart from those products which an enterprise is not allowed to market itself, an enterprise may, after selling and delivering the mandated planned commodities as directed by the state and autonomous region, market its products by any means inside or outside the autonomous region. An industrial enterprise may, in accordance with the situation, set as operating expenditures and incentives for salesmen 1 to 3 percent of the proceeds of its own sale of products. Economic transactions undertaken by an enterprise may proceed according to the stipulations of the relevant province or autonomous region.

4. It is necessary to appropriately raise the rate of depreciation of some enterprises. For large and medium-sized enterprises that conform to the industrial policy of the state and the autonomous region, the depreciation rate on their fixed assets may be increased by 1 percent for marketable products with good economic results. For the 25 enterprises that are to undergo major technological transformation during the Eighth Five-Year Plan of the autonomous region, and that are able to withstand the process, the depreciation rate on their fixed assets may be increased by 2 percent, and the increased portion will be exempt from contributions to energy resources and communications funds, as well as from the state budgetary readjustment fund. Effective 1992, the 25 enterprises listed as key technological transformation projects under the Eighth Five-Year Plan will be exempt from contributions to the aforesaid funds since the money will be used for technological renovation.

5. It is necessary to continue the practice of setting aside 1 percent of the annual sales in a technological development fund to be used specifically for developing new products, and these funds will be exempt from the energy resources and communications fund, as well as the state budgetary readjustment fund.

6. It is necessary to replenish the revolving fund. An enterprise may replenish its revolving fund externally as follows:

1) Starting from 1992, various levels of finance departments in the autonomous region will continue to annually replenish the enterprises' revolving fund, in accordance with financial resources.

2) On loans to local state-owned industrial enterprises, a specialized bank will charge a floating interest rate 20 percent below the current rate approved by the head office of the People's Bank. The difference will be used to replenish an enterprise's own revolving fund. Finance departments of the autonomous region will grant loans from their reserve funds to enterprises for use as a revolving fund. The interest on the loan will be used by the enterprise to replenish its own revolving fund.



3) Effective 1992, when a contract enterprise overfulfills its basic targeted return of profits to the state, the corresponding finance department shall refund 50 percent of the returned profits to the enterprise to be used in the enterprise's own revolving fund.

4) New projects and extension projects must be set up with their own revolving funds not less than 10-30 percent of the additional fixed revolving fund. This will follow the principle that whoever arranges the project will dish out the money.

An enterprise may replenish its revolving fund by itself in the following ways:

a. It may set aside 1 percent of the proceeds from annual sales to replenish its own revolving fund.

b. It may use for its own revolving fund the appreciated value, based on the unified prices fixed by the state, of materials and goods kept in stock.

c. It may put into its own revolving fund all the income derived from the enterprise's various bonds which have matured.

d. It may increase its own revolving fund through other channels.

7. The autonomous region shall actively recommend to relevant departments of the state for the granting of foreign trade operating rights those enterprises and enterprise groups that are able to independently engage in foreign trade, and those enterprises that are capable of contracting projects, exporting labor services, and providing economic, scientific, and technological cooperation. Enterprises that do not have the right to engage in foreign trade may export their products through units with export rights inside and outside the autonomous region in the form of an agency or joint operation.

8. It is necessary to further do well the job of clearing debt default chains. Enterprises must correct the misconception and practice of "incurring debts with justification," and "incurring debts with advantage," and take the initiative to clear debt default. To avoid clearing the debt chain on one end and extending it on the other, one must consider the interest involved in a loan, commodity price indices, and the revolving fund when making arrangements for a construction project. It is necessary to firmly restrict and stop production of overstocked items. To encourage loan repayments, one must get into the practice of tying restrictions to loans, and increase investment in technological renovation. We must earnestly adopt a financial measure in which loans given out must be recollectable, debt incurred must be repaid, and the tying up of funds must be curtailed in order to consolidate debt clearing.

9. It is necessary to organize and establish enterprise groups according to the needs of structural readjustment and economic development, so as to reap the benefits of the collective efforts of a trade. Existing enterprises and enterprises with the potential for development must take

steps for consolidation and improvement, and gradually establish, in a practical and planned way, transregional enterprise groups by organizing various specialized corporations for streamlined production, for developing famous brands and fine products, and to coordinate science with industry, trade, and agriculture. Steps should be taken gradually to proceed from a semi-intensive to an intensive group that exerts unified management over personnel, finances, materials, and products, as well as supply and marketing. Major enterprise groups may, upon approval of their applications, become corporations with independent economic decision-making authority. Impact groups shall cooperate internally to produce a complete set of products and equipment, with combined efforts of group corporations to pay taxes on the finished products, and dispense with taxes on the intermediary links. For scientific research units that are turning into enterprise groups, the nature of their business and operational channels, as well as the policy of preferential treatment toward them shall remain unchanged. They shall also be exempt from the turnover tax when they transfer technological achievements to members of the enterprise groups.

10. It is necessary to select some enterprises and enterprise groups to straighten up the relationship of property rights and launch a pilot project on a shareholding system. Qualified enterprise groups may participate in the exercise of subscribing to the shares and shareholding in the pilot project. Enterprises with good economic efficiency and development prospects may openly issue bonds to the public to raise funds for technological renovation and project expansion. At the same time, it is necessary to study and formulate corresponding policies to promote the normal development of shares.

11. It is necessary to resolutely control the "three irregularities" of fee collection. We must strictly implement the "decision on resolutely stopping indiscriminate collection of fees, levying wanton fines, and apportioning of various expenses" issued by the party Central Committee and the State Council. No department is allowed to indiscriminately require the use of manpower, materials, and money in any form, and efforts must be made to resolutely check the indiscriminate collection of fees, imposition of fines, and pooling and exaction of funds. Other than the collection of fees and gathering of funds under the unified management of the state, the collection of fees and fines, and the exacting of funds in the autonomous region must be centrally administered. The authority of approval must be centralized in the autonomous region, which will strictly implement the system of granting permits for fee collection. Receipts centrally designed by the finance departments in the autonomous region must be issued against the various fees and fines collected. It is necessary to adopt the method of separating the collection units from the payment units, and under no circumstances are the collected fees and forfeitures to be linked up with the financial income of execution units.

12. The collective management of all forms of inspection and assessment of enterprises should be improved. The "Circular on Suspending Activities of Assessing and Upgrading Outstanding Enterprises and Screening All Forms of Inspection and Assessment of Enterprises" issued by the State Council's Production Office must be earnestly implemented. Inspection and assessment by local authorities and departments in the autonomous region must have the approval of corresponding economic commissions and their permits. Departments in charge of fiscal, taxation, price, and auditing affairs should carry out their supervision and inspection according to the law and within their normal scope of operation.

13. Strong and economically efficient enterprises are encouraged to take over unprofitable and weak ones on the principle of "equality and reciprocity." In cases where the enterprise that is taken over is heavily in debt, it should be allowed to keep its line of credit after it has paid off its debts; and funds needed for resuming or expanding production after the takeover should be allotted first. An enterprise which takes over an unprofitable one will continue to receive the same subsidy that the unprofitable enterprise had received to compensate for its losses. If the enterprise had received no subsidies, the enterprise which conducted the takeover may have the amount of profits it delivers to the state reduced appropriately. Energy, raw materials, and investment needed by an enterprise to reorganize the production and upgrade the technology of the enterprise it took over shall be considered and allotted first.

14. Large and medium-size state enterprises in the autonomous region are encouraged to serve oil development. All machinery and electrical equipment used for oil prospecting and development and in the petrochemical industry will be exempt from income taxes for three years.

15. Enterprises may set the prices of the goods they manufacture, except for those for which the prices are set by the state and the autonomous region. In accordance with measures for increasing the prices of quality goods, enterprises may increase the prices of their goods that have received the state's gold or silver awards, or which have been certified by a ministry or by the autonomous region to be quality goods. The price increase should, however, be reported to the commodity price and other competent authorities for the record. For new products acknowledged by the state or by the autonomous region, enterprises may set their test marketing prices, which should be reported to the commodity price and other competent authorities for the record. The length of test marketing periods are: three years for new, state-class production means; two years for new, regional-class production means; two years for new, state-class consumer goods; and one year for new, regional-class consumer goods. With the approval of corresponding price departments, test marketing periods may be appropriately extended for major new products involving complex technology, which require longer testing periods.

When the test periods are over, manufacturers may set the prices of goods for which the state does not assign prices.

16. Within the state-authorized pay scales and staff size, an enterprise has the right to choose a hiring system appropriate to its production. It has the right to establish its internal departments and staff as required by its production and operations. It has the right to reject the request of any other department to establish counterpart organs, and has the right to handle and dismiss lawless and undisciplined workers according to regulations. In accordance with the enterprises' actual needs, labor departments should work in coordination with other relevant departments in making overall arrangements for the use of personnel assigned by the state under the unified assignment plan. Under the premise of upholding and improving measures to link pay with efficiency, an enterprise may choose its own form of remuneration and way of giving out bonuses in accordance with its actual situation as well as the principle of each according to his work.

17. The enterprises' leadership system should be improved according to the "Enterprise Law." The way the "Enterprise Law" is implemented should be examined. Enterprise authority that has been withdrawn or withheld by higher authorities should be returned to the enterprises immediately. Economic affairs commissions at all levels should be responsible for coordinating implementation of the "Enterprise Law." Party organizations should give fuller play to their role as political cores, the system under which the director of a factory is in charge of its operation should be upheld and improved, and support from the working class should be sought wholeheartedly. A factory should give full scope to the roles of its director, party organizations, and workers' congress. A factory director (or manager) should have the power to hire and dismiss administrators in the middle of the hierarchy. The factory director (or manager) appoints or dismisses administrators in the mid-level hierarchy after nomination by the factory director or recommendation by party organizations, screening by organizational and personnel affairs departments, and have been collectively discussed and approved of at an enlarged meeting of the party committee.

18. Mechanisms by which enterprises restrain themselves should be improved. An enterprise should voluntarily accept control of the state's relevant laws, regulations, and policies; accept the supervision of departments in charge of planning, finances, auditing, labor, wages, and price affairs. It should work earnestly to fulfill state plans and contracts, and operate its business according to the law. The percentage of an enterprise's funds for production expansion, welfare services, and awards retained from its profits should be rationally set so as to ensure its production expansion and capacity for future development. Enterprises must

retain the full amount of funds for equipment depreciation and overhaul, and for development of new products according to regulations, and make sure that these funds are used appropriately.

19. Enterprises must give proper consideration to the interests of the state, themselves, and their workers, and should also consider both long-range and immediate interests. The growth of wages of an enterprise's workers should not be higher than its production growth so that the distribution of national income will not excessively favor individuals. Unprofitable enterprises, including those that appear to be profitable, should not increase their bonus payments or issue efficiency wages. Enterprises whose products are unmarketable or whose operation have been fully or partially suspended because of mismanagement should stop giving out bonuses, or cut wages. Directors (or managers) of enterprises which have failed to fulfill their contracted production quotas shall not exercise the right to promote 1 percent of its workers to a higher pay scale. The higher competent authorities shall investigate the leaders of those enterprises that fail to enforce the aforementioned requirements, or that have employed trickery.

20. Enterprises should continue to reform their labor and personnel system and distribution system. Based on the principle of rationalizing labor groupings, they should assign manpower reasonably so that the production front can be reinforced and surplus personnel reduced. For those personnel who are in excess supply only on a temporary basis, enterprises should assign them jobs first before transferring them to other areas in society. Solutions include developing tertiary industry, sponsoring in-house training, putting these personnel on job waiting lists, retiring them ahead of time, trading them with other factories, or encouraging them to find jobs themselves. Their placement must be proper. Enterprises should continue to select and hire competent administrators from among applicants, and gradually replace the appointing system with a hiring system. In accordance with the principle of "small but efficient," enterprises should restructure their organization, set standards for all posts, and job requirements for all personnel, cut back the number of organs, and curtail the number of nonproductive personnel. They should initiate and gradually adopt a remunerative system based primarily on work skills. Preferential treatment should be given those whose work is hard, filthy, tiring, or risky, as well as those working on the production front, so that rewards can be linked to services and remunerative egalitarianism can be abolished.

21. Factories must be managed strictly, and enterprises' internal management must be intensified. Enterprises should establish and improve all forms of economic obligations and strictly enforce all regulations and rules. Priority should be given to protecting reputation through improving product quality, to fulfilling quotas through improving efficiencies, to product management through developing new products, to enlivening the use of capital

through promoting sales, and to democratic management through encouraging workers to exercise their supervisory role. Enterprises should speed up modernizing their administrative organizations, methods, and measures, organize their production and operation in a scientific manner, and work hard to improve their efficiency as a whole.

22. Positive efforts should be made to restructure the product mix so as to expand production of popular goods and make them more competitive on the world and domestic markets. All sorts of effective measures should be taken to explore new markets and reduce the inventory of unsold goods. Enterprises which have a large inventory of unsold goods should be controlled by various measures—such as reducing or terminating their energy and raw materials supply, transportation services, or bank loans—according to their different situations. Competent authorities of enterprises whose product quality is below the standard set by the state, or whose performance has been found to be substandard, shall serve these enterprises a warning, set a deadline for them to improve their management, withhold their efficiency wages according to the regulations, and withhold bonuses for their directors and other relevant personnel. If these measures remain ineffective, they should revoke these enterprises' production permits and operation licenses, and remove their directors and other leading cadres from office. Manufacturers of bogus and inferior products shall have their directors' legal responsibilities investigated.

23. A deadline should be set for those enterprises, whose operational losses are caused by mismanagement, production of inferior goods, or waste to air, water or reduce losses. If they fail to cut losses within the deadline, they should be ordered to suspend operations for improvement.

24. Continual efforts should be made to enliven distribution and explore new markets. All departments and enterprises should attach as much importance to distribution as to production. Greater efforts should be made to reform the distribution system and to establish an open, flexible, highly efficient, and controllable distribution system. The barriers between production and distribution, between sectors within the distribution sphere, and between different administrative regions should be removed so that their operation can meet the needs of the world, domestic, and regional markets. Special importance should be attached to exploring the market in agricultural and pastoral areas so that the distribution sector can fully play its part of being the "central chain in enlivening the economy." Efforts should be made to reduce the number of middle links and gradually establish a sound distribution system which combines industrial production, agricultural production, trade and supply, so that new markets can be explored constantly.

25. On the basis of improving large and medium-size state enterprises in general, we should support certain enterprises—enterprises which have a broad market,



which have achieved high economic returns, which can take advantage of Xinjiang's rich natural resources, and which can take the lead in promoting Xinjiang's economic development—by applying special policies on them and by signing investment and production contracts with them so that they can accelerate the pace of upgrading their technology. Specific measures will be drawn up separately.

26. Stronger organizational leadership should be provided for large and medium-size state enterprises. All party and government departments and relevant authorities must place on their agenda of important affairs

projects of reinvigorating large and medium-size enterprises, help these enterprises solve their problems, serve them wholeheartedly, and encourage the vast public to attach importance to these enterprises, care for them, assist them, and support them, so that these enterprises in Xinjiang will be able to operate with increasingly greater vigor and higher efficiency as result of the mass support. To create a good external environment essential for reinvigorating large and medium-sized enterprises, we should also correctly handle the relationship between local interests and overall interests, and between immediate interests and long-range interests.

### Health Conditions of Three Top Leaders Compared

92CM01954 Taipei HSIN HSIN WEN (THE JOURNALIST) in Chinese No 234, 25 Jan 92 pp 12-17

[Article by Wen Cheng (3113 6134): "Are Li, Li, and Hsu in Good Health?"]

[Excerpts] (passage omitted) On the afternoon of 11 January, at the Tanshui Golf Course, President Li Teng-hui had an unexpected stomachache and was forced to cancel his golf game. Although an official of the Presidential Office, in a statement to the public, said that Li Teng-hui's stomachache was very minor and could not be mentioned in the same breath as Bush's fainting and vomiting, the coincidence of the two incidents has become the hottest topic of conversation these days in Taipei's political and medical circles.

Since Li Yuan-tsu entered the Presidential Office in 1990 to assume the post of secretary general and then vice president, he has been twice sent into the operating room of the Veterans General Hospital. As for Premier Hsu Po-tsun, there was an instance when he could not attend a Kuomintang Central Standing Committee meeting because of stomach trouble caused by food poisoning.

Li Teng-hui, Li Yuan-tsu, and Hsu Po-tsun are the three "big leaders" playing a decisive role in Taipei's political arena. What is their health condition? Is it "normal in every aspect" as stated in official announcements? Or are these leaders as healthy as described by the "pet phrases" often "slipped" from the lips of the "medical team" conveners, who maintain close personal relationships with them? Examples of such phrases are: "Excellent!" "They look good in every aspect!" "I don't see any problem!" But if a medical professional has a chance to look at their physical examination reports, he may say that this is not the case.

President Li has just had his 70th birthday. All available medical reports show that nearly every test he took gave a "normal" result. Strange to say, however, the National Taiwan University Hospital included quite a number of cardiological tests in his physical examination in July 1990. Of course, it is a reasonable explanation that Lien Wen-pin, convener of the "presidential medical team," with cardiology as his specialty, wanted to demonstrate his expertise as much as possible. But apart from this, wasn't there any unannounced reason? This is a perplexing question worth pondering. If a "presentable excuse" must be made, it could be that the most important thing for people over 65 is to be cautious against such troubles as cardiovascular diseases and malignant tumors. With that excuse, there seems to be "nothing strange" in requiring the numerous cardiological tests.

Li Teng-hui does have an "unknown physical problem." When he was young, he injured his shoulder in the course of throwing grenades or learning kendo (art of sword). Because of this, he occasionally feels a dull pain

when swinging a golf club. In addition to this, when he was vice president, he complained of numbness and tingling in his arms and had an examination at the National Taiwan University Hospital. The examination revealed a bone spur on his cervical vertebrae. The symptom was somewhat alleviated after he received electrotherapy.

To Li Teng-hui, who has to bear a lot of stress everyday, his chronic gastritis may be a nuisance, even though the disease is mild. Although his doctor said that the gastric ailment on 11 January at the Tanshui Golf Course had nothing to do with his gastritis, no one can say for sure that such trouble will not reappear in the future.

Anyone familiar with Li Teng-hui's character knows that his biggest health problem is not caused by those physical ailments that are neither serious nor minor, but by his stubbornness. For example, his reluctance to take physical examinations is known to many of his old friends. After assuming the presidency in January 1988, he took a physical examination at the Veterans General Hospital in July of that year. It was not until July 1990 that he went to the National Taiwan University Hospital for another physical checkup. To date the third examination within the tenure of his presidency, though "repeatedly urged" by the media and his "medical team," has not yet been scheduled. (passage omitted)

As to Vice President Li Yuan-tsu, whoever has joined him in mountaineering knows that he is so physically fit that he cannot feel "satisfied" if he does not "climb mountains." Moreover, he is so "accomplished" in mountaineering that there was even an instance where one of his carefully selected aides accompanying him in this sport was unable to endure and fainted. On the other hand, however, his two major surgeries, in April 1990 and October 1991 respectively, have caused considerable public concern over his health.

The April 1990 surgery was necessitated by acute cholelithopancreatitis combined with duodenal ulcer bled when he was secretary general of the Presidential Office. To be cautious, the Veterans General Hospital arranged for group consultations of doctors, namely, Wen Chung-chieh, retired professor of surgery at the National Defense Medical Center, Shen Kuo-liang, originally a surgeon, then vice president and presently president of the Tri-Service General Hospital, and Chen Hsueh-mo, former director of the Surgical Department of the National Taiwan University Hospital and presently board chairman of the "Republic of China Surgery Society." The four medical institutions' cooperation, the first of its kind, in treating a patient signifies that the illness was not as "insignificant" as "imagined."

In October 1991, Li Yuan-tsu underwent another operation due to an intestinal obstruction, which was believed to have something to do with his 1990 surgery. Then, there was the news that after the October 1991 operation Vice President Li was hospitalized again because of some kind of ailment. Despite the authorities'

attempt to block the release of this information, it was finally dug up by a news outfit, igniting public dissatisfaction with what the authorities did.

With regard to Li Yuan-tsu's health, the biggest problem in worry about is his digestive system. Besides, his high blood pressure is also a problem, which must be controlled by long-term medication. Another latent trouble is hyperglycemia, and to control it, he has to follow a special diet. He also has minor hemorrhoid.

As to Hao Po-tsun, morning swims and golf are two sports giving him a relatively positive image. In the morning race held on New Year's Day 1991, he gained wide publicity by finishing a 4.5-kilometer course from the Presidential Office to Sun Yat-sen's Memorial Hall in 48 minutes. Nonetheless, it is also a fact that once he failed to control his weight. To correct this, he put a demand on himself—he made up his mind not to eat breakfast and did this with unmatched perseverance for a period of time. This finally stopped the sharp rise in his weight.

Previously, Hao Po-tsun's physical examinations showed no sign of gastritis. But this problem has appeared one year or so after his assumption of premiership. Like Li Teng-hui, who has the same problem, Hao Po-tsun should pay attention to relieving himself of high work pressure so as to avoid worsening his gastritis. Apart from this, his high blood pressure is a cause for alarm. For this reason, his doctors have constantly given him advice on how to control his blood pressure. Now, he has achieved some results in this regard. Following his physical examination on the last day of 1991, the Government Information Office of the Executive Yuan dispatched a special news report saying that the premier has done well and succeeded in controlling his blood pressure. Apparently, this is a report with ulterior motives.

What is rather strange is that Hao Po-tsun was near-sighted with a 0.7 vision for both eyes, but a recent test shows that the vision of his right eye has been restored to 1.0, which is normal. Even the doctor cannot explain this.

It is worth mentioning that 10 years ago, Hao Po-tsun, then army commander in chief, had his gallbladder removed at the Tri-Service General Hospital. After the surgery, he was promoted to chief of general staff. Since then, his official career has been smooth and successful. Li Yuan-tsu also underwent an operation to excise his gallbladder. The operation was performed at the Veterans General Hospital around the time when he was Presidential Office secretary general but nominated for the position of vice president. This interesting coincidence seems to indicate that Li Teng-hui likes to use people "without gall."

A careful comparison of the health condition of the "three big leaders" shows that the youngest one, 68-year-old Li Yuan-tsu, has the best physical stamina, but is most liable to have "problems." Hao Po-tsun is the oldest, at the "advanced age" of 72. Except for a minor

case of food poisoning and the excision of a wart at the Tri-Service General Hospital, he appears to "remain vigorous in his old age" without any health problem. Li Teng-hui, now 70, is between the other two in age. He has only two incidents. He sprained his left calf a year ago, and had a minor stomach ailment recently.

While illness is a personal question for common people, health of the head of state is a matter of public concern. The state has to establish a team of expert medical and nursing personnel, that is, a so-called "medical team," to take care of his health at all times. In Taiwan, only the president and vice president have such a privilege. There is no similar arrangement for the premier. It is learned, however, that the Tri-Service General Hospital has a special "physical examination team" for Premier Hao Po-tsun, who has long been in charge of the government and armed forces. Principal responsible persons for the team include Lieutenant General Ma Zheng-ping, president of the National Defense Medical Center, and Major General Shen Kuo-liang, president of the Tri-Service General Hospital.

It is learned that after Mr. President Li Teng-hui took office in January 1988, Chang Tzu-t, then deputy secretary general of the Presidential Office, together with Shih Chun-ten, former director general of the National Health Administration, worked out a namelist for a 10-member trans-hospital "medical team." The team members included presidents and directors of internal medicine departments of the Taiwan University Hospital, the Veterans General Hospital in Taipei, the Tri-Service General Hospital, the Veterans General Hospital in Taichung, the Chungshu Memorial Hospital attached to Kaohsiung Medical College, and the Chang Keng Hospital in Kaohsiung. Lien Wen-pin, director of the Internal Medicine Department of the National Taiwan University Hospital, was named convener of the team. The above six medical institutions located from the north to south of the island constitute the backbone of an emergency medical network for President Li. However, there seems to be no medical institution in the east that can be included in this network to make the structure perfect.

As a matter of fact, these hospitals and doctors are not always unchangeable. At times, they are adjusted to meet the needs of the president's problems. For example, a year ago when President Li sprained his left calf while playing golf, Lien Wen-pin asked Han I-hsiung, orthopedics professor of the National Taiwan University Hospital and board director of the "Republic of China Sports Medicine Society," to treat the president.

Mr. Ching-kuo's "presidential medical team" and emergency medical system were known to have taken exceptionally cautious measures in view of his waning health and frequent diseases in his late years. The Presidential Office formulated a special plan, dubbed the "Good Health Plan," to meet emergency needs so as to keep the central leadership from faltering.



It is revealed that Mr. Chiang-kun's "presidential medical team" was composed of the following members in addition to convener Chiang Pi-ning, a celebrated doctor and vice president of the Veterans General Hospital: Luo Kuang-jui, former president of the Taichung Veterans General Hospital and now president of the Taipei Veterans General Hospital; Peng Fang-ku, former vice president of the Taipei Veterans Hospital and now president of the Taichung Veterans General Hospital; Chin Chien-nien, director of the Internal Medicine Department; Li Te-yu, director of the Anesthesiology Department; Chang Tsun, director of the Radiology Department; and Lou Jung-hung, director of the Eye Department of the Taipei Veterans General Hospital. Chiang Hung-ting, former director in charge of cardiology at the Taipei Veterans General Hospital and now director of the Internal Medicine Department of the Kaohsiung Veterans General Hospital; and Cheng Shou-shan, director in charge of cardiology at the Taipei Veterans General Hospital. The team held a regular meeting every month to discuss medical plans.

The main part of the "Good Health Plan" was an emergency medical network composed of all military hospitals in the province plus the Kinmen military hospital. For this purpose, all military hospitals purchased intensive care equipment to meet the needs that might come up at any time. Helicopters and specially modified ambulances were ready for use in case of emergency. When the president was going to make a tour, Chiang Pi-ning, as convener of the "medical team," was responsible for inspecting the hospitals concerned in various localities prior to the tour. This is not a light job. For this reason, medical professionals often compare the work of the two "presidential doctors," Chiang Pi-ning and Lien Wen-pin, trying find out whose job is more difficult.

Now, let us look into President Li Teng-hui's sudden stomachache at the golf course. How serious was his stomachache is a matter of public concern. It is a fact, however, that the aides accompanying him did not notify Lien Wen-pin, convener of the "presidential medical team," on the very day the ailment occurred. This can be seen from the fact that Lien Wen-pin was rather surprised when interviewed by the media on this incident. He stressed repeatedly that "if Mr. President had a health problem, how could I know nothing about it. A year ago when Mr. President sprained his left calf while playing golf, they did page me by phone." After repeated inquiries and checks, it has been verified that Lien Wen-pin had been unaware of President Li's "minor problem" until the next day when he was interviewed by the media. Then, after contacting the officials concerned through proper channels, he went to the president's residence to do some aftermath checkups.

From Lien Wen-pin's remarks, it is not hard to see he was stressing that President Li's ailment was not serious "just as a youngman may occasionally sneeze when the weather turns cold." However, this matter revealed a very severe problem. Mr. President used to take Lien

Wen-pin, convener of the "presidential medical team," along with him when inspecting various counties and cities. But when he was playing golf in suburban Taipei, the only means of communications with the medical team was the beeper or the mobile telephone. If the accident on that day had not been a brief stomach ailment, but upper gastro-intestinal bleed or some more serious problems, then an extremely large "loophole" would have appeared in Mr. President's emergency medical system. Although Ho Chi-ming, director of the Tanshui Golf Club, who accompanied President Li on that day, was originally a surgeon, it is impossible for Mr. President to choose him as a golf companion on every occasion. What is more, Ho Chi-ming may not be familiar with every illness, nor can he make complicated diagnosis in internal medicine.

Viewed in this perspective, President Bush's fainting was much more serious than President Li's stomach ailment. It is evident, however, that Bush's emergency medical network is perfect and superior to ours. Both the measures taken on the spot and the medical work done afterward by the White House medical team were better than what we could do. This is what our related departments have to acknowledge. They should take remedial steps as quickly as possible. [page omitted]

[Begin box, p 13]

#### Recap of Li Teng-hui's Physical Exam Results

Blood pressure: 128/80, normal. Weight: 83.5 kg. Pulse: 62-68 per minute. Physical exam: normal. Hematological exam: normal. WBC count: 6,000, normal. Hemoglobin: 15 g per deciliter. Hematocrit: 43.7 percent, normal. Cardiological exam: EKG, stress test, ECHO cardiogram, and nuclear medical scan—normal. Digestive system: normal, except for mild chronic gastritis. X-ray and CAT scan: normal from head to pelvis, except for a minor bone spur between sixth and seventh cervical vertebrae, bone spur asymptomatic. Optometric test: farsighted, reading glasses being replaced. Remark: high uric acid level in the past, now resolved. Date of exam: blood drawn Dec 1989, physical exam July 1990. Place of exam: Presidential Office, National Taiwan University Hospital. [end box]

[Box, p 15]

#### Recap of Li Yuan-tsu's Physical Exam Results

Weight: 60 kg. Blood pressure: 130/70, normal (controlled by medication). Pulse: 60 per minute. EKG: normal. Chest X-ray: normal. Left ventricular function by nuclear medical scan: normal. ECHO cardiogram: normal. Abdominal ultrasound: liver, pancreas, bile duct, kidney—normal. Endoscopic exam: esophagus, stomach—normal, duodenal ulcer resolved. Proctoscopic and colonoscopic exam: normal, minor hemorrhoid. Fundi: normal. Lung function test: normal. Urinalysis: normal. Urine glucose and protein: urine negative. Liver function test: normal. Kidney function test: normal. Fasting blood sugar: 140, mildly elevated.

RBC count: 5.25 million, WBC count: 8,000, Hemoglobin: 16 g, all normal. Date of exam: May 1991. Location of exam: Taipei Veterans General Hospital (end box)

[Box, p 17]

#### Recap of Hao Po-tsun's Physical Exam Results

Height: 170 cm. Weight: 78.4 g, slightly overweight. Blood pressure: 138/80, mildly elevated. Pulse: 65 per minute. Temperature: 37 degrees. Respiration: 18 per

minute. Appearance, skin: normal. Head, ears, nose, throat, oral cavity: normal. Eyes: normal, O.D. 1.0, O.S. 0.7. Neck, chest, abdomen, limbs, nerve system: normal. Regular blood tests: normal. Hepatitis B surface antigen: negative. EKG, ECHO cardiogram, stress test: normal. Thyroid function test: normal. Chest, abdominal X-ray tests: normal. Proctoscopic exam: normal. Endoscopic exam: mild gastritis. Abdominal ultrasound: normal, except for absence of gallbladder. Date of exam: Dec 1990, Dec 1991. Place of exam: In-Service General Hospital. Recap by: Wen Cheng (end box)

### Commentary on Governor's Annual Policy Speech

92CM0065A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 250, 16 Oct 91 pp 8-9

[Article by Lin P'ei-shan: "An Administrative Report Replete With Suggestions of Retirement"]

[Text] When the first Legislative Council of directly elected members convened its first meeting on 9 October, Hong Kong Governor Sir David Wilson took 2 minutes less than 1 hour to finish reading his fifth administrative report since assuming office. This could be Governor Wilson's final administrative report. (Talk of the British Conservative Party replacing the governor next year is now very widespread.) It is a pity, too, that it was the poorest of the five administrative reports that Wilson has delivered. He will have a hard time leaving a good impression on Hong Kong's people with this.

We say that the report was poor because it totally lacked anything on development. It was backward looking and only dwelled on technical aspects. It had nowhere near the clarity of theme that his four earlier reports had. Because of the difficulty of making any progress on behalf of the people of Hong Kong with government reform and because the tide of emigration was being exacerbated, the focus of Wilson's thinking in the 1987 and 1988 administrative reports was on the quality of life for people. He stressed the promotion of economic development, wider use of credit, and development of housing, medical treatment, education, environmental improvements, as well as the physical and mental development of young people. He wanted to create a magnificent Hong Kong where the quality of life was steadily improving. In 1989, people were stimulated by his review of the crisis of confidence among the people of Hong Kong brought on by the events of 4 June, the withdrawal of British rule, the human rights law, the new airport, and the expansion of specialized education. Although in 1990 the Chinese and the British were still in a brouhaha over the new airport, Governor Wilson, with rich imagination, conjured up for the people a vision of Hong Kong 10 years from now as a magnificent rose garden. Although the price tag on the beautiful dream he was selling was not cheap (it required the people of Hong Kong foot the bill and to sacrifice their political struggle for democracy and freedom), he always justified it as a dream being created for Hong Kong's people and connected it with the focus of his work for the previous year and the year to come.

However, this year's report was a piecemeal affair. Its policies were cobbled together and not coherent. It lacked direction and principles.

In the latest report, the governor declared that Hong Kong has undergone three critical changes and that they would be molding our future.

The three changes are the development of Hong Kong's constitutional system, relations with China, and internal

social changes. The entire report was devoted to discussing these three changes, and our initial comment will also be about Governor Wilson's remarks on these changes.

Governor Wilson described how the government cooperated with the Legislative Council in developing the Constitution, the ties between the Legislative Council and the Executive Council, the preparations which need to be made for the 1995 elections, the need to review the 1991 Legislative Council election, and the need for an additional vice chairman on the Legislative Council.

The issues Governor Wilson discussed were mainly technical matters. He did not mention the direction in which our political system was heading nor the principles involved. When Hong Kong becomes a special zone in 1997, how are we going to achieve a "high degree of self-rule with Hong Kong residents ruling Hong Kong"? If in the words of the British, "We must plant the roots of a representative system of government in Hong Kong," how should Hong Kong's political system be proceeding? Or to adopt the tone of the Democrats or of Hong Kong residents, how far away is Hong Kong from a liberal, democratic political system?

The governor did not mention what he thought should be done, nor did he mention whether the development of Hong Kong's political system was a long-term, an medium-term or even a short-term goal. Of course, if the governor, when he discussed specific plans, could have clearly brought out the direction and function of the changes, residents could have read between the lines and would have known in what direction Hong Kong's political system was headed. However, the governor only discussed letting more officials explain policies to Legislative Council members (he did not talk about strengthening the supervision over executive organs and increasing administrative and legislative openness); he only discussed the need for Executive Council members to focus their attention on major issues (he did not talk about whether the Executive Council and the Legislative Council should be separate and about the issue of Executive Council members representation); and he only discussed reviewing the voting, the political parties, and the election districts in the 1991 election (he did not talk about evaluating the 1991 election, why the Democrats had such a big victory, and whether the election was a success).

The governor dodged the major issue of constitutional government and only spoke of it superficially. Hong Kong residents, of course, only see the trees not the forest.

With respect to relations with China, the governor merely emphasized the strengthening of "contacts." He told of the airport memorandum of understanding to establish a Sino-Hong Kong partnership, speeding up the work of the Sino-British joint liaison small group, strengthening consultations on Hong Kong by Sino-British leaders, the Hong Kong Government this year



having close to 100 delegations which visited China, 23 million tourists crossing the Sino-Hong Kong border during the first 8 months of 1991, and Hong Kong engaging and using 3 million workers in Guangdong Province.

It is too bad that neither Hong Kong residents nor the British Government have really increased their contacts with China. Hong Kong residents have affection for China and are concerned about it. However, it is difficult for them to accept the present regime. With several decades of accumulated fear of the communists, anti-communist sentiments, and anxiety about 1997, it is not hard to understand why Hong Kong residents are completely unwilling to increase their contacts with China. The British Government definitely is not merely limited to the one link of state ties. However, further links are resisted. How are the British to deal with these questions of managing and governing Hong Kong prior to 1997? Although the Sino-British dispute over the new airport has been resolved, although mechanisms have been set up which interject China into routine Hong Kong affairs, and although China and Britain have resumed their superficially friendly and cooperative relations, the differences between the Chinese and the British or between the Chinese and Hong Kong residents still have not been resolved. China's unwillingness to acknowledge as issues whether Hong Kong residents who have obtained the right to live in Britain will be treated differently after 1997, its threat that the human rights law will probably not survive beyond 1997, and the status of the Legislative Council prior to 1997 has created differences between the two sides. However, the truly major differences, I am convinced, are determined by the succession issues of planning for a system of government and who will be governing Hong Kong residents. In the eyes of China, the British in Hong Kong intend to foster the Democrats, allowing them to join the Executive Council and teaching them how to govern Hong Kong. They intend to place authority in their hands. Conversely, the people that China intends to have governing Hong Kong have not received from the Hong Kong Government training or help with difficulties. After all, until 1997 it is the British in Hong Kong who have the power to make appointments to the various legislatures, consultative commissions, and legal bodies. If they are unwilling to relent, China's intended will have a difficult time becoming part of the Hong Kong Government's apparatus. With respect to the system of government, aside from whether more than 20 are directly elected to the Legislative Council in 1995 or not, we still have problems involving the Executive Council's game rules, the change in the relationship between the executive and the legislature, and the existence of political parties.

Nevertheless, Wilson's attitude is extremely ambiguous. None of these contradictions were addressed in his administrative report. If we were to take a negative point of view, we would have to say that this is a sign of his personal weakness or the difficulties of a government in decline. The British in Hong Kong no longer dare to raise

issues which might anger the Chinese Government! In the debate over the new airport, China won a big victory, while the British neither won nor lost. However, generally speaking, they did lose face. The closer we get to 1997, the weaker the British situation is likely to be with respect to Hong Kong's general affairs, and the question is whether they will be forced to give up control or not? In his 1990 report, Wilson was neither supercilious nor obsequious to China. He indicated that the closer we got to 1997, the more essential it was to have a detailed understanding of the major policies of the Chinese Government after 1997. However, to strengthen our side of the interchange, he indicated we must not be seen as giving the Government of China an opportunity to veto decisions that should be made by the Hong Kong Government. However, in this year's report, he did not re-emphasize that policy decisions made before 1997 were the business of the Hong Kong Government and that China had no veto power over them. Instead, he reviewed the memorandum of understanding which gives China the means to interfere in Hong Kong affairs and which requires that harmonious and effective partnerships be established at various levels with Chinese officials of equivalent rank.

Of course, we know from past events that the British do not give up that easily. In the near future, they could play a number of little tricks in developing a system of government. However, there could be another explanation that would not be made public. Wilson could soon be leaving his post, and not wanting to anger China and hoping to maintain a good relationship, he had to play down British policies.

The third critical change that Governor Wilson mentioned in this year's report was internal social change. The governor's elaboration of it was similarly defensive.

The private sector long ago criticized the development of basic construction and its high public expenditures not only because it stimulated inflation but also because it would probably reduce social services to residents.

The governor is deeply aware of the private sector's feelings in this regard. Accordingly, he did not again trumpet the rose garden effect of the new airport in this year's report. Because the public is worried about economic costs, he is constantly urging the Hong Kong Government not to forget to use construction surpluses for social welfare services. He even presented this "philosophy" to a "social development" branch during a holiday celebration. He declared that "my thinking has cleared up a bit and that government authorities definitely have not improved the quality of Hong Kong's social services nor increased the variety of services, seeing this as a luxury. The significance of this type of work is certainly not subordinate to investments made in port facilities and a new road system." He also said, "The government must undertake to improve unfavorable social services and social security conditions no less than it undertakes to improve basic construction." He even argued that the purpose of the government's larger

new investment plan for development during the next 10 years, which is dedicated to economic growth, is not to improve the economy but to utilize increased wealth to improve the living standards of all of Hong Kong's families and to create for every resident a happy and secure life.

Nevertheless, Wilson's argument is weak. We can see from his report the vital importance he attaches to investing in the airport, but we cannot see how he is going to improve social welfare services. He completely failed to address education and housing, and what he stressed for medical and health work consisted of reviewing a multiplicity of individual medical services, such as children's dentistry and the health of women and the aged. Again, he neglected the essentials to attend to the trifles. In dealing with social welfare, all he talked about was protective legislation for children and a 10-year international plan for work with the disabled. But he did not say a word about how to secure a better life for the poor by increasing aid to them, to the old, to single-parent families, and to the young. If this does not show a lack of sincerity about doing anything for the social welfare of the middle and lower classes, it shows that the Hong Kong Government's financial austerity cannot even include any new welfare programs. Therefore, whatever the reasons, when Governor Wilson says not to forget social welfare services, it is nothing more than a frail pretext devoid of any meaning.

What makes a person sigh even more is the profound ignorance the governor displayed of the hardships of the people—the high rents, the high inflation, and the terrible public safety, the social problems that most concern Hong Kong residents at present.

The governor turned a blind eye to high rents. He did not say a word about them. With respect to inflation, the governor still wants to gloss over it with the measures launched to attack it in May, declaring that there has been a certain success, with the rate dropping from 13.9 percent in April to 12.7 percent in August. However, the governor only addressed the still extremely high level of inflation in terms of the wage issue, mentioning, on the one hand, that expanding the importation of workers has restricted wages and, on the other, the havoc being wreaked by inflation.

The ability of the governor to simplify issues in this manner is amazing. And what is more amazing is that he has not recognized the need for the Hong Kong Government to assume a little responsibility. The vicious cycle of low interest brought about by linked exchange rates, high land price policies, and high inflation have enabled the big real estate businessmen to push up rents. Widespread fleecing of people and rising inflation stimulated by basic construction are factors that the government chooses not to review. Instead, it only mentions worker wages. Is this the government evading its responsibilities, or is it to sustain the wealthy at the expense of the middle and lower classes?

With respect to public safety, we are acutely aware that armed robberies, underworld crime, and smuggling have been rampant in the past 2 years. It is too bad that Wilson went to great pains to play down its seriousness, declaring that 200 more night patrols had been added—as if this could control the outbreak of crime of this severity. If Wilson is not naive and innocent, then he is ignorant. Of course, it could be that he is at a loss for what to do and is putting up a smokescreen of words on how to solve the problem.

For the past several years, Wilson has been facing one difficulty after another. There have been both a crisis of confidence on the part of Hong Kong residents bringing an upsurge in emigration and the pressures of China's interference making it impossible to develop a system of democratic government. However, he was still intent on looking on the bright side of things, making those residents whose demands are not excessive feel that their future lives would be satisfactory. However, this year's report portrayed Wilson as cringing and as a governor without vision or ideals. The whole report was evasive. Not knowing what to say, he attended to the trifles and neglected the essential. Unable to bring the people of Hong Kong an improved political and economic life, he resorted to numbers to make his case. However, the figures are inadequate and a poor substitute for achievement.

Wilson cannot even pretend to do anything about the political situation, and he did not try. He could do something about the economy and people's living standard, but he does not have the ability. Although it might be even worse to replace the governor, what Wilson has done has made people feel he needs to retire or that he is thinking of it.

#### Prospects for Stable Constitutional Development

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[MING PAO MONTHLY] in Chinese No 313, Jan 92  
pp 20-21

[Article by Legislative Council member Liu Hunging (049) 1979 (0615): "Bleak Prospects for the Development of a Constitutional System"]

[Excerpt] [passage omitted] At this moment of time, when there is not much time before the transfer of power occurs, the British still have not sketched a blueprint for Hong Kong in the post-transition period, but have only given people the impression that they are "doing the least that is expected of them." Everyone has heard the story the "Emperor's New Clothes," and some people have described me as the little boy in the story. The argument is very simple. In the development of this post transition period, there are many things which worry people, but the common people cannot speak out publicly. Yet there are some who hope to outwardly maintain the stability and prosperity of Hong Kong, while some fear openly putting the blame on bigwigs, and some fear that "there cannot be any positive result." But I am

a democratically elected member, and I have the responsibility to "say all I know and say it without reserve," sometimes even "going on undeterred by the certain dangers that lie ahead."

Many have worries and misgivings about how the 1997 Hong Kong Special Administrative Region (SAR) government will be formed, and what the arrangement of the executive, legislative and judicial aspects will be. According to the Basic Law, in Hong Kong in 1996 the Chinese will establish the first SAR Government Planning Committee, and this committee will establish an election committee composed of 400 people. The members of this committee will include businessmen, industrialists, professionals, workers and political figures. We have already had experience with similar committees during the Basic Law drafting period, and hence there is no need to have any illusions. This committee will through consultation or after consultation nominate and elect the first executive senior official, and report the appointment to Beijing. If we want to have a smooth transition, the Chinese and British governments will undoubtedly have to cooperate. The question is, will large numbers of Hong Kong people have the opportunity to participate in this important process, and thereby realize a high level of autonomy, and undertake to have Hong Kong people rule Hong Kong?

In addition to the senior executive official, the SAR's important officials, corresponding to the current department level officials, are nominated by the senior executive official, and appointed by the Chinese and British governments. These people must be long-time Hong Kong residents and Chinese citizens who do not have foreign right of abode. Under these conditions, how many currently serving department level officials will be willing and be allowed to remain in their posts after 1997?

When it comes to the Legislative Council (Legco), how the 1995 Legco membership will be produced at present remains a mystery. The Basic Law only permits the 1997 Legco to have 20 directly elected seats. The British government says it hopes to persuade China to make more concessions. I personally have always favored the idea that the entire Legco should be elected according to one man one vote, because Hong Kong has sufficient conditions for implementing a full Western style democratic system. The functional group elections will again be expanded, and the number of seats allotted to them will increase to 30. Who will emerge the winners for the nine new functional seats is another mystery. In addition, 10 Legco seats will be chosen by the "election committee," making people even more bitterly disappointed. This committee is not clearly explained in the Basic Law: will it be a committee that consults with the senior executive official? Will the committee's appointments be made covertly? Though this committee will have to conduct the 1995 election, the government is still very tardy in explaining it to the Hong Kong people, and this is regrettable.

Though Hong Kong's legislative organ has legislative power, if the Chinese and British governments believe a law signed by the legislative body is not in accordance with the Basic Law, then they can return legal precedence to Hong Kong, and legal precedence immediately becomes ineffective. What is more, in addition to the six Chinese statutes in the Basic Law applicable to Hong Kong, if in Hong Kong there is a situation "in which the government cannot control turmoil," other laws applicable to the whole country will be in effect in Hong Kong. How great is the harm done to the legislative power of Hong Kong's legislative body by these powers held by the Chinese central government?

The judicial system is also facing bleak prospects. The Legco recently by a large margin voted down a court of final appeal resolution by the Sino-British Joint Liaison subcommittee that would have restricted the ability of the court of final appeal to being able to invite only one foreign judge. How this difficult situation will be settled remains unclear, but this debate on the independence and reputation of the judicial system certainly can only be for the better. That the Chief Prosecutor Yang Tieliang (2799 6993 2836) was so eager to defend the mistaken resolution of the Sino-British Joint Liaison Subcommittee, was something that shocked and surprised people.

Something that also gets peoples' attention is the issue of right of final appeal. The Basic Law stipulates that Hong Kong's right of final appeal is subordinate to Hong Kong's court of final appeal, but interpretation of the Basic Law's authority is subordinate to the Standing Committee of the National Peoples' Congress, and when the court treats cases touching on relations with the central authorities or relations between the central authorities and Hong Kong, the court must wait for an interpretation from the NPC Standing Committee, and judge the case according to this interpretation. Under these conditions, it may well be asked: where in fact is Hong Kong's right of final appeal and where is the independence of the judiciary? [passage omitted]

#### Interview With United Democrats Chairman

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[Article: "We Are Not an Opposition Party—Interview With Mr. Martin Lee, Head of Hong Kong Alliance"]

[Excerpt] [passage omitted] Question: On 4 December, the Legislative Council meeting passed a motion to "refuse to accept the arrangement reached by the Chinese and British governments on setting up a court of final appeal in Hong Kong." However, the Chinese side said that it had no intention to revise its plan in this connection, but the Hong Kong government also plans to try continuously to hold discussions with the Chinese side. Is this a blow to the democrats and citizens in Hong Kong?



Martin Lee: Saying that changes are not to be made is unacceptable. An agreement between one nation and another is only a draft which remains invalid before it is adopted by its legislative organ. For example, the "Joint Declaration" was initialed and announced on 26 September 1984. It was only after debates by the British Parliament, that it officially passed in early December in the same year, and was formally signed on 19 December. Therefore, the Sino-British agreement on the court of final appeal are not to be carried out if it has not earned the support of the Legislative Council. The British side is responsible for bringing up the issue and discussing it with the Chinese side. However, the Hong Kong government repeatedly said that it had no plan to bring up the issue and hold discussions with the Chinese side. On the other hand, it even intends to promote this draft agreement as scheduled. All this takes place as if the Legislative Council does not exist. It completely despises the resolution adopted by the council members.

Originally when the council members voted 38:2 against this agreement during the internal affairs meeting at the end of October, Hong Kong Chief Secretariat Ford said that he would hold discussions with the Chinese again. However, he was unwilling to discuss this issue when he found the stand of the Chinese side uncompromising. On the contrary, he even exerted pressure on the Legislative Council. Why didn't he spend more time persuading the Chinese side instead of asking the council members to accept the agreement? This time, the majority of the Legislative Council members have achieved such a good result, while leaving their differences of opinion behind. The signal is extremely clear. That is, we do not accept the agreement reached through behind-the-door talks and that on the issue of inviting overseas judges, the court of final appeal should enjoy the kind of flexibility given by the "Joint Declaration" and the "Basic Law."

Question: Recently you said that "China and Britain have violated the declaration." Does it mean that Sino-British relations are becoming relaxed or that they would even join their efforts in dealing with democrats?

Martin Lee: This is not what I meant. It is only that Britain is unwilling to defend the "Joint Declaration" on many issues. Nor is it willing to stand up and fight for the interests of the people in Hong Kong. Once frightened by the Chinese side, it feels weak and makes compromises. As for the Chinese side, it gave top priority to its control of Hong Kong soon after the 4 June incident. Its next priority is Hong's stability and prosperity. The reason why the Chinese side does not recognize the Legislative Council is that it does not want to see an organization in Hong Kong which will step forward to discuss official business with it on behalf of the citizens for the their interests. The council members are often "disobedient." On the contrary, the British authorities in Hong Kong easily make compromises and heed what the Chinese side say.

Question: Then, is it impossible for the people in Hong Kong to achieve their goal?

Martin Lee: No. Actually there were some exceptions in the past. First, it was on the right of abode in Britain. The Chinese side adopted an uncompromising attitude at the beginning. However, later when the British Parliament approved it, the Chinese side followed a precedent by mentioning nothing about it after denouncing it once. Second, was the law on human rights. The Chinese side also repeatedly said that Hong Kong did not need a law on human rights. However, when it was adopted later, the Chinese side left the issue unsettled after denouncing such law for a while.

In fact these two examples call for deep thought. They have proven that if the British Hong Kong Government needs to do anything that must be done, there was no need for it to consult with the Chinese side as long as what it must do does not violate the "Joint Declaration." For example, the court of final appeal can be set up first. When the conditions are ripe, it is unlikely that the Chinese side would refuse to accept reality.

Question: Hong Kong is developing towards the direction of party politics. However, some people in the commercial circles and other sectors of the society have showed disapproval of such a direction. What do you think? Is party politics needed in Hong Kong at present?

Martin Lee: On the whole, party politics is good for Hong Kong. For example, if all the 60 council members are absolutely independent, there will possibly be 60 different views on a particular issue. Naturally too many diverse views would make the government difficult to operate and decide on its policy decisions. However when political parties exist, it would be easy to know the stand adopted by various sectors concerned, and the government would know approximately whether a motion can be carried or not. In addition, party politics will not necessarily lead to discord. The debate on the court of last appeal is a good example. Even if there are some forms of discord, there should be no problem. Problems can be solved through debates and voting. One should not worry that a chaotic situation would prevail in society because of this.

Question: Some observers in Taiwan believe that Hong Kong's "party politics" may possibly develop itself to an acute confrontation like that in Taiwan. What is your view on this?

Martin Lee: I do not think so. The new Legislative Council has been operating for several months now, and everything seems to be quiet. Whenever democrats make a slight mistake, they will be attacked by citizens. When Selina Chow Liang Shuk-ye denounced democrats, she was immediately vilified by the news media. All this proves that Hong Kong society does not accept this type of acute political activities.

Question: Many of the views of the Hong Kong Alliance in Support of the Patriotic and Democratic Movement differ from those of the Hong Kong Government. Does it help define the role of the alliance as an opposition party?

**Martin Lee:** I do not think so. An opposition party opposes the government on every issue. However, our attitude is that we would agree with whatever the government is doing correctly, but oppose whatever the government is doing wrong. In fact, we very seldom are opposed to the government, but whenever we voice opposition, the media always report it extensively because of its news value. In addition, an opposition party has the opportunity to run the government, while it is impossible to do so in Hong Kong.

**Question:** Since it is impossible for the Alliance to run the government and it is not an opposition party, then how do you define the nature of the Alliance?

**Martin Lee:** Due to the peculiar circumstances, we remain a minority, even if we had won so many seats during the recent direct election. I think I can only say that we are "a minority with strength and with the support of the masses."

**Question:** How do you evaluate China's political development before 1997?

**Martin Lee:** I am not an expert on China. However, many people believe that China has become stable and that tremendous changes are not expected within a short period. Nevertheless, I am not familiar with issues on China after all. It is hard to say. Changes may be very quick. The situation in the Soviet Union and East Europe is a good example, but it is difficult to specifically make an estimate on the schedule for such a change.

**Question:** If the political situation in China changes, would it provide the Hong Kong Alliance an opportunity to run the government?

**Martin Lee:** This is a hypothetical question. Naturally it is possible if the head of the administration is elected by the people and more than half of the Legislative Council members are elected by the people. Nevertheless, the current situation in Hong Kong shows that we are still far away from a political party running the government. First of all, we must have a sound political system. It is only possible by changing the political system and the Basic Law.

**Question:** Recently there was a saying that problems exist within the Hong Kong Alliance in reaching common understanding. There is even discord within the Alliance. Is this true?

**Martin Lee:** It is true that the operation of the Hong Kong Alliance is not 100 percent smooth. Nevertheless, this is not because of discord or power-struggle within the Alliance. It is simply because of the fact that the Alliance was formed in such a hurry that our operation is not so smooth. Again, we won 14 seats at one swoop. We have to hire many more staff members, and they are sometimes out of line in handling things. Now, we, the 14 council members, meet once a week and even have

lunch together to reach common understanding. Every time we are unanimous in casting votes unlike what happens in "Qilian."

**Question:** Have you ruled that members of your Alliance must sing in chorus when they express their views to outsiders?

**Martin Lee:** The rule is more flexible on some issues of regional nature. Members may express his views in their own region not identical to those of the Alliance's central committee. However they must be more strict and careful in speaking on matters that involve all of Hong Kong.

**Question:** Is this kind of rule compatible with the practice of a democratic party?

**Martin Lee:** We have made the decision to enforce this rule after discussions.

**Question:** What happens if there are true differences in opinion?

**Martin Lee:** Temporarily we have not reached that stage yet. If it really happens, it all depends on what is all about. Then we will make our decision at that time.

**Question:** Has the Hong Kong Alliance clearly indicated as to whose interests it represents?

**Martin Lee:** We mainly fight for the interests of the people at the grassroots level and those of the middle and lower strata. However, we also attach great importance to overall economic developments. It is hoped that we can do our best to look after the interests of the people of various sectors in society. When the interests of different strata conflict, we will use "social justice" as a standard and support the side which is more rational. For example, on the issue of importing labor, we are opposed to importing a large number of laborers into Hong Kong, but we are not entirely opposed to importing laborers. For example, we uphold the proposal of setting up a retirement plan to take care the elders and solve the problem of ageing population, but we do not promote the social form of higher welfare that would possibly undermine our economy.

**Question:** How do you handle the relations between the Hong Kong Alliance and the Chinese side?

**Martin Lee:** It is hard to say. It all depends on the attitude of the Chinese Government. A crisis will emerge if the Chinese side continues to repel us, while citizens in Hong Kong continue to support us. Even if we are not allowed to ride the "direct train," another election will be conducted in 1999. What would happen if we win once again? Dialogue is necessary, but this does not mean that we must fawn upon them or obey whatever they say.

Actually, it does not mean that the Chinese side would accept us if we take a more moderate attitude or even change our beliefs. They pay no attention to "Qilian" in the same way they ignore us. They just don't want anyone who would fight for the interests of the Hong Kong people.

Question: Hong Kong's developments are closely connected with those in China. Is there someone in

the Hong Kong Alliance studying the situation in China?

Martin Lee: Temporarily we have nobody. We don't have the manpower. Later we may possibly strengthen our research. However, individual council members may talk with some experts on China to understand the situation there.



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